OFFICE OF THE

Auditor General of British Columbia

2007/08 Annual Report and 2008/09 – 2010/11 Service Plan

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of British Columbia

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The Honourable Bill Barisoff
Speaker of the Legislative Assembly
Province of British Columbia
Parliament Buildings
Victoria, British Columbia
V8V 1X4

Dear Sir:

I have the honour to transmit the 2007/08 Annual Report and 2008/09 – 2010/11 Service Plan of the Auditor General of British Columbia to the Legislative Assembly, to be laid before the Assembly in accordance with the provisions of section 22 of the *Auditor General Act*.
This report is also available on our website: www.bcauditor.com.

John Doyle, MBA, CA
Auditor General of British Columbia

Victoria, British Columbia
June 2008

copy: Mr. E. George MacMinn, Q.C.
Clerk of the Legislative Assembly

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Message from the Auditor General

This report covers the first five months of my six year term, as well as seven months of the terms of my predecessors, Acting Auditors General Arn van Iersel and Errol Price. I wish to express my gratitude to them both, particularly Errol who continues as my Deputy, for leaving me a strong organization and a track record of success.

In addition to being a report on the Office's performance over the last twelve months, this is also our operational Service Plan for the next three years. The Office has combined the Service Plan and Annual Report in one document because it first explains past performance then provides the best context for understanding expectations for the future. Put another way, this one document explains where we've come from, where we are and where we want to be.

The Service Plan reflects expectations as they have evolved during my first five months in office. During this time, I have worked with the Executive and staff to identify priorities that are most meaningful to stakeholders. While much of what we do remains unchanged, this process has resulted in a shift of emphasis in the Office's strategic priorities, how we manage the business and how we measure and report on performance. Implementation of this work is ongoing and will continue over the course of 2008/09.

The Office of the Auditor General of British Columbia has, for some number of years, enjoyed a reputation internationally as a leader in the field of legislative audit. I have been fortunate enough to assume the helm of an already excellent organization, and look forward to the Office achieving continued success in the future.

John Doyle, MBA, CA
Auditor General

Accountability statement

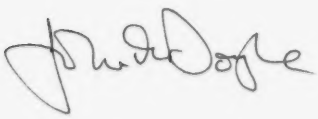
The 2007/08 Annual Report and 2008/09–2010/11 Service Plan of the Office of the Auditor General of British Columbia was prepared under my direction in accordance with the *Auditor General Act*. I am accountable for the results achieved, for the selection of performance indicators and for how performance has been reported.

The report reflects the performance of the Office of the Auditor General for the 12 months ending March 31, 2008. All material fiscal assumptions and policy decisions up to June 2, 2008 have been considered in the development of this publication.

This combined annual report and service plan presents a comprehensive picture of the Office's actual performance. The Office's performance reporting framework has recently changed, however performance against targets set in the 2007/08–2009/10 Service Plan is reported in an appendix as well as throughout the document. The report includes estimates and interpretive statements that represent the best judgement of management. The measures reported are consistent with the Office's mission, goals and objectives, and focus on aspects critical to understanding the performance of the Office of the Auditor General.

I am responsible for ensuring that the Office's performance information is measured accurately and in a timely manner. Any significant limitations in the reliability of the performance data have been identified and explained.

This report and service plan has been prepared in accordance with the B.C. Reporting Principles and is intended for a general audience. Specific users who require more detailed information should contact the Office.



John Doyle, MBA, CA
Auditor General

External Auditor's Opinion on the Annual Report

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Auditors' report

To the Speaker

The Legislative Assembly, Province of British Columbia

We have been engaged to report whether the 2007/08 Annual Report and 2008/09 – 2010/11 Service Plan (the "Annual Report") of the Office of the Auditor General of British Columbia (the "Office") for the year ended March 31, 2008 fulfills the requirements of the BC Reporting Principles. The eight BC Reporting Principles outline the characteristics of good performance reporting, and have been endorsed by the Legislative Assembly's Select Standing Committee on Public Accounts for use by public sector organizations in British Columbia. This Annual Report is the responsibility of the Office. Our responsibility is to assess whether the Annual Report has met the requirements of the BC Reporting Principles.

Except as explained in the following paragraph, we conducted our examination in accordance with Canadian standards for assurance engagements and accordingly included such tests and procedures as we considered necessary in the circumstances. The conclusion in our report is based on procedures that we determined to be necessary for the collection of sufficient, appropriate evidence in order to obtain a high, though not absolute, level of assurance that the Annual Report fulfills the requirements of the BC Reporting Principles.

Readers are cautioned that we did not specifically test the reliability of the data contained in the Office's Annual Report, and consequently we do not offer assurance on the reliability of the information reported except for that presented in the Office's 2008 financial statements for which we have provided a separate audit opinion.

Our examination was not designed to provide assurance on representations from management concerning the appropriateness of the goals, objectives and targets established by the Office. Such representations are the opinions of management and inherently cannot be subject to independent verification. Therefore, our examination was limited to ensuring the Annual Report contains those representations called for by the BC Reporting Principles and that they are consistent with both unaudited performance information and audited financial statements.

In our opinion, except for the effect of adjustments, if any, which we might have determined to be necessary had we audited the accuracy of the data as referred to in the third paragraph above, this Annual Report fulfills the requirements of the BC Reporting Principles. The following appendix contains details supporting our conclusion for each of the BC Reporting Principles, and is an integral part of our opinion.

Grant Thornton LLP
Chartered accountant

Victoria, Canada

June 16, 2008

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External Auditor's Opinion on the Annual Report

Appendix to Auditors' Report of Grant Thornton LLP on the 2007/08 Annual Report and 2008/09 – 2010/11 Service Plan of the Office.

Detailed observations

Principle 1 – Explain the Public Purpose Served
The report explains the Office's mission and public purpose, as outlined in enabling legislation. It reports on the organization's three core business areas and the services/products provided. The report includes a discussion of the involvement of private sector auditors and the quality assurance measures in place. The report details the Office's clients and stakeholders, including the accountability relationship with the Legislative Assembly. Other factors that are critical to understanding performance are identified, including independence and objectivity.

Principle 2 – Link Goals and Results
The report clearly identifies the organization's mission, mandate, goals, objectives, and successfully explains their interrelationships. Performance indicators are clearly reported and reflect the core substance of the objectives and focus on short-term and long-term outcomes. The report explains variances between planned and actual results, variances from prior years' results and discusses plans to achieve targeted results in the future.

Principle 3 – Focus on the Few, Critical Aspects of Performance
The report provides meaningful information to readers by focusing on four key performance indicators that are critical to the understanding of the operational performance of the Office. Results of performance, both financial and non-financial, are clearly presented. The report manages its level of detail by referring appropriately to companion documents.

Principle 4 – Relate Results to Risk and Capacity
The report examines the key risks to the Office and explains the impact of risk and the resulting critical success factors on performance results in both a short-term and long-term context. The report addresses capacity in terms of human resources and funding and how these affect the ability to deliver organizational goals and objectives.

Principle 5 – Link Resources, Strategies and Results
The report highlights key financial information at an organization-wide level. Explanations are provided for variances from prior year and budgeted amounts. The report conveys efficiency through its discussions and analyses of performance indicators. Links between resources and outputs are discussed and contribute to the reader's understanding of the efficiency of operations.

Principle 6 – Provide Comparative Information
The report does not provide comparative data in its analyses of three of the four performance indicators as new performance indicators were adopted in the current year. Changes in objectives and performance indicators from the service plan and prior years are discussed appropriately. The report explains that benchmarks and industry data were sought, but information for direct comparisons was unavailable.

Principle 7 – Present Credible Information, Fairly Interpreted
We did not specifically test the accuracy of the data, and consequently we do not offer assurance on the accuracy of the information reported nor internal controls over systems used for producing reported data. In the report, the Office has expressed its own assessment of the reliability of the information in their discussion of data sources and limitations. The report is reasonably concise, effectively uses tables and graphs to present information and avoids excessive use of specialized terminology.

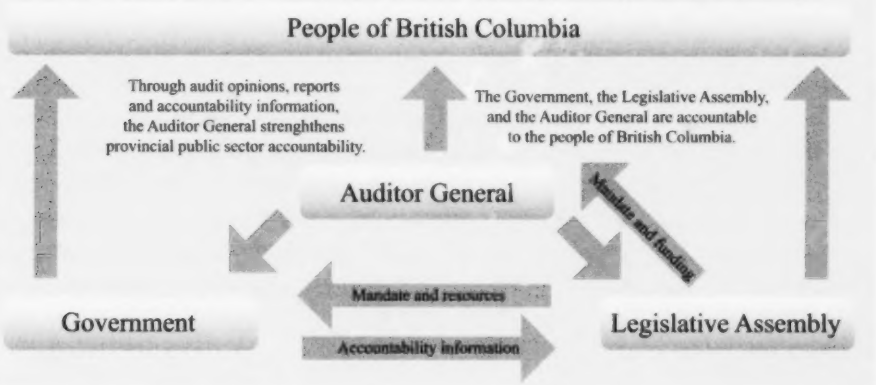
Principle 8 – Disclose the Basis for Key Reporting Judgments
The report identifies the sources of information for performance indicator data. Limitations to data sources, where present, are disclosed. Reasons for changes to objectives and performance indicators are sufficiently explained. The report discusses the Office's confidence in the reliability of the data, and reports successes and shortcomings in a fair and balanced manner.

About the Office of the Auditor General

Mandate and role

The Auditor General has a unique role in British Columbia. Non-partisan, independent of government and reporting directly to the Legislative Assembly, the Auditor General provides assurance about government's overall operations in a way that no one else can (Exhibit 1).

Exhibit 1: The Office of the Auditor General plays a key role in strengthening provincial public sector accountability


People of British Columbia
Through audit opinions, reports and accountability information, the Auditor General strengthens provincial public sector accountability.
The Government, the Legislative Assembly, and the Auditor General are accountable to the people of British Columbia.
Auditor General
Mandate and funding
Mandate and resources
Government
Legislative Assembly
Accountability information

The Auditor General's mandate is broad, covering audits not only of the financial statements of the Province, but also of government's performance reports and the delivery of specific programs and services. Through the work of the Office, the Auditor General provides the public and the Legislative Assembly with a strong means for holding government to account for how it delivers programs and services to the people of British Columbia.

The Auditor General is appointed for a six-year term by the Legislative Assembly. Reappointment can be made for a second six-year term. By reporting impartial assessments of public sector accountability and performance to the Assembly, the Auditor General contributes to improved accountability and performance in the British Columbia public sector.

Under the authority of the *Auditor General Act*, the Auditor General has a mandate to audit all parts of the provincial public sector, including its ministries, Crown agencies and other organizations such as school boards, colleges and institutes, universities and health authorities. In 2007/08 the planned cost of delivering these programs and services was over $36 billion.

The Act requires the Auditor General to audit the government's annual Summary Financial Statements. The Act also allows the Auditor General to be appointed as the financial statement auditor of any organization that is included in the government reporting entity (meaning any organization for which financial results are consolidated into the Summary Financial Statements).

As well, the Act allows the Auditor General to carry out examinations that focus on, among other things, whether government (through its ministries) or a government organization

About the Office of the Auditor General

is operating economically, efficiently and effectively; whether the performance information provided to the Legislative Assembly by government or a government organization concerning program results is adequate; and, to "follow the dollar" where grants, loans or other transfers are made by government to individuals or organizations.

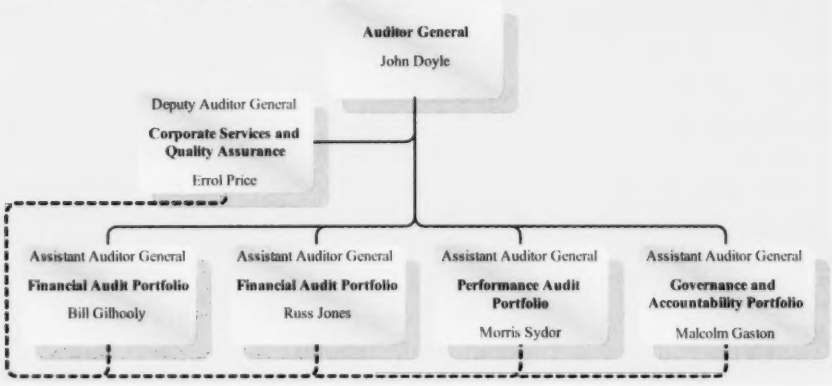
The Auditor General is the Legislative Assembly's auditor. The Auditor General's reports provide Members of the Legislative Assembly (MLAs) and all British Columbians with independent, relevant, credible, high quality information on the performance of their government, performing a vital role in support of the democratic process of responsible, accountable government.

Governance

Structure

To carry out our mandate, we conduct three lines of business, each focused on our primary business products – financial audit, performance audit, and governance and accountability – managed across 4 operating portfolios (Exhibit 2).

Exhibit 2: The Office of the Auditor General operational structure



A fourth component, corporate services and quality assurance, provides centralized office-wide support in areas such as professional practices, legal services, human resource management and business functions (which include financial services, information technology and general administration).

Financial Audit accounts for 54% of expenditures, 50% of staff and is spread over two operating portfolios. This line of business has primary responsibility for delivering on our first goal – promoting sound financial administration and reporting.

Financial Audit work includes the audit of the Province's summary financial statements, delivering on the Financial Statement Audit Coverage Plan (FSACP) and examining issues related to financial management and information technology. As outlined in the FSACP, some of our audits are performed by private accounting firms under contract.

Performance Audit accounts for 24% of expenditures and 20% of staff. This line of business has primary responsibility for

About the Office of the Auditor General

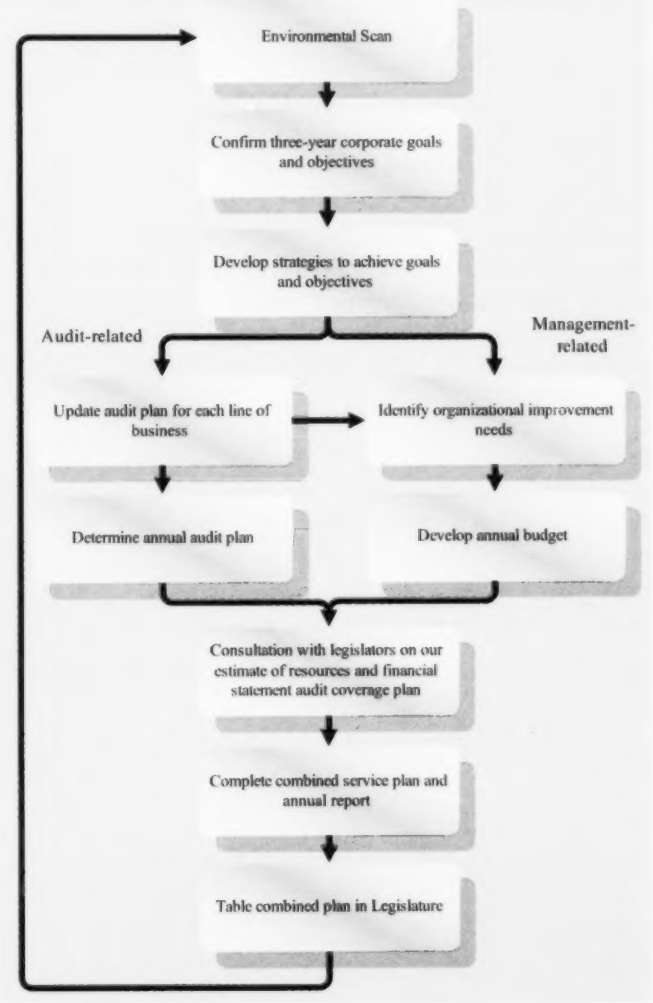
delivering on our second goal – well managed provincial programs, services and resources – and for our work under section 11(8)(b) of the *Auditor General Act* related to economy, efficiency and effectiveness.

In the latter half of the year, our Performance Audit and Accountability Reporting line of business was renamed "Governance and Accountability." The work we have done over the last decade to improve government accountability will continue, but will be refocused towards performance management and governance within individual organizations and across sectors of government. Governance and Accountability work accounts for 3% of expenditures, and 4% of staff. The portfolio responsible for delivering this line of business also makes a significant contribution towards our Performance Audit work.

Planning, funding and reporting cycle

The Office's expenditures in 2007/08 were $12.28 million. Financial details are provided at the end of this report in our audited financial statements and the accompanying discussion and analysis.

Exhibit 3: Planning, funding and reporting cycle of the Office of the Auditor General


Environmental Scan
Confirm three-year corporate goals and objectives
Develop strategies to achieve goals and objectives
Audit-related
Management-related
Update audit plan for each line of business
Identify organizational improvement needs
Determine annual audit plan
Develop annual budget
Consultation with legislators on our estimate of resources and financial statement audit coverage plan
Complete combined service plan and annual report
Table combined plan in Legislature

Our planning, funding and reporting cycle (Exhibit 3) sets out how corporate goals and objectives guide internal planning activities.

The Auditor General Act requires strong involvement by committees of the Legislative Assembly in reviewing the Auditor General's work plans.

The audit of government's Summary Financial Statements is the largest audit the Office performs each year. The Summary Financial Statements encompass all government operations, including ministries, Crown corporations, trusts, colleges, school districts, universities, health authorities and other public entities.

About the Office of the Auditor General

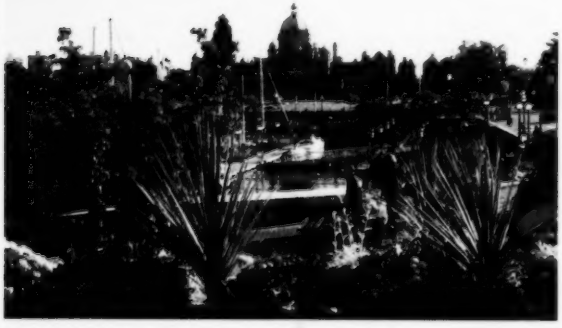
The Auditor General is not required to audit each of these organizations individually. However, under Canadian generally accepted auditing standards, the Auditor General must have sufficient knowledge and understanding of the operations of the organizations making up the summary financial statements. This knowledge can be obtained by auditing directly some of the organizations and trust funds that make up the Government Reporting Entity. It can also be obtained in part by relying on the work of other auditors who have been appointed by individual organizations and trust funds.

In November of each year, the Auditor General submits a Financial Statement Audit Coverage Plan (FSACP) to the Select Standing Committee on Public Accounts.[1] The FSACP outlines a three-year audit plan for the Auditor General as the auditor of government organizations and trust funds, representing the minimum audit coverage required to meet professional requirements and allow the Auditor General to sign the audit opinion on government's Summary Financial Statements.

In addition to auditing the annual financial statements of central government and its ministries, the 2007/08 FSACP called for us to directly audit the financial statements of 21 organizations and have an oversight role for 19 more. The remaining 106 organizations, out of a total of 146, were audited by private sector auditors.

Once approved, the cost of the work identified in the FSACP is combined with the cost of carrying out our other lines of business to form our Estimate of Resources. The Estimate of Resources is submitted to the Select Standing Committee on Finance and Government Services.[2] The approved Estimate of Resources must be included in the main estimates of the Province (traditionally the budget for the Auditor General is Vote 2 in the budget, behind the appropriation for the Legislature).

Our combined Service Plan and Annual Report, tabled in the Legislative Assembly at the end of June each year, confirms our strategic direction and reflects the approved Financial Statement Audit Coverage Plan and Estimate of Resources.



British Columbia's Parliament Buildings

[1] The Select Standing Committee on Public Accounts is an all-party committee of the Legislative Assembly, chaired by a member of the opposition. It is the committee to which the Auditor General's reports are routinely referred.

[2] Another all-party committee of the Legislative Assembly, the Select Standing Committee on Finance and Government Services, also reviews the budget submissions of the other officers of the Legislature.

Strategic Framework

Vision, mission, goals and values

Mandate

Under the authority of the *Auditor General Act*, the Auditor General has a mandate to audit all parts of the provincial public sector (ministries, Crown agencies, school boards, colleges and institutes, universities, and health authorities).

The Act requires the Auditor General to audit the government's annual Summary of Financial Statements and allows the Auditor General to be appointed as the financial statement auditor of any organization that is included in the government reporting entity (i.e., any organization for which financial statements are consolidated into the Summary Financial Statements), subject to the approval of a committee of the Legislative Assembly.

The Act also allows the Auditor General to carry out examinations on, among other things, whether government or a government organization is operating economically, efficiently and effectively; and whether the performance information provided to the Legislative Assembly by the government or a government organization with respect to the results of its program is adequate.

Vision

A highly valued, independent legislative audit office recognized for excellence in promoting effective and accountable government.

Mission

To serve the people of British Columbia and their elected representatives by conducting independent audits and advising on how well government is managing its responsibilities and resources.

Goals

To promote:

- sound financial administration and reporting,
- well-managed provincial programs, services and resources,
- comprehensive public sector accountability reporting,
- effective public sector governance, and

To adopt best practices in our work and as an employer.

Values

External focus:

- *Serving the public interest:* being relevant to legislators and the public.
- *Independence and objectivity:* being free of influence, conflict of interest and bias.
- *Trust and integrity:* treating those with whom we have contact honestly and consistently; meeting our commitments.

Internal focus:

- *Mutual respect:* managing and interacting on the basis of fairness, equity, honesty, trust and personal dignity.
- *Teamwork:* cooperating, supporting and respecting each other's contributions.
- *Work-life balance*: supporting quality-of-life endeavours and respecting personal commitments.

Strategic Framework

Linking priorities and performance

Strategic overview

The Office vision, mission and goals flow directly from our legislated mandate to our operational lines of business.

In developing this structure, we identified attributes and values to guide how we conduct our business externally and internally.

External focus attributes and values

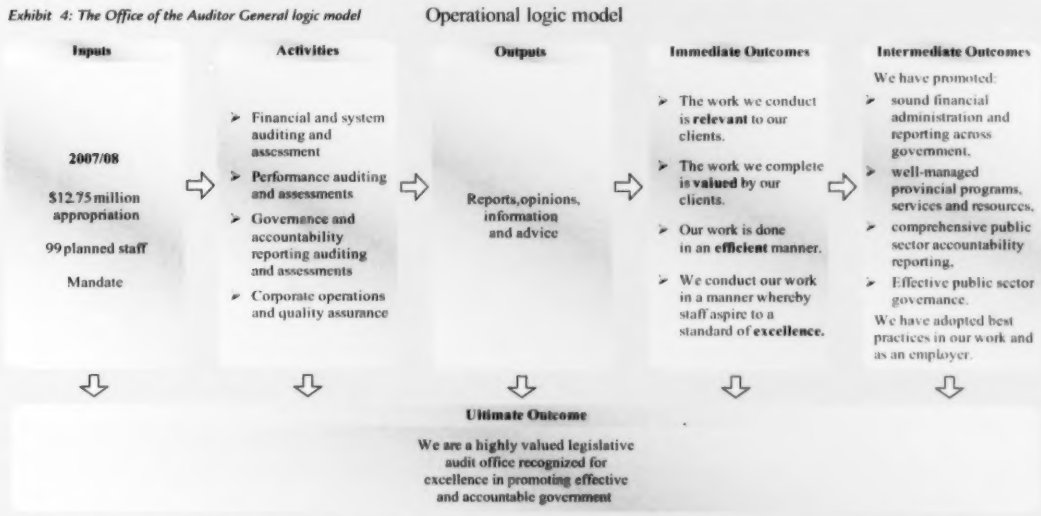
- *Serving the public interest*: above all, seeking to be relevant to legislators and the public.
- *Independence and objectivity:* being free of influence, conflict of interest and bias.
- *Trust and integrity:* treating those with whom we have contact honestly and consistently; meeting our commitments.

Internal focus attributes and values

- *Mutual respect:* managing and interacting on the basis of fairness, equity, honesty, trust and personal dignity.
- *Teamwork*: cooperating, supporting and respecting each other's contributions.
- *Work life balance:* supporting quality-of-life endeavours and respecting personal commitments.

The Office's logic model shows the flow from resource inputs through to our immediate outcomes (Exhibit 4). Under the authority of the Auditor General's mandate, we use resources (staff and budget) to conduct our activities and produce reports, audit opinions, information and advice. We measure our success through our immediate outcomes: relevance, value, efficiency and excellence (each is discussed in detail later in the report). These outcomes lead to intermediate outcomes directly related to our operational goals (by line of business) and contribute directly to our vision and long-term goal of being a highly valued legislative audit office.

Exhibit 4: The Office of the Auditor General logic model

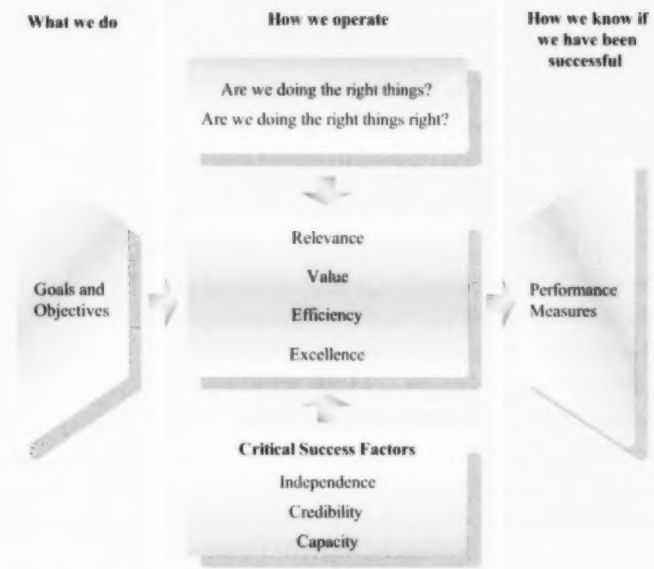

Operational logic model
Inputs
2007/08
$12.75 million appropriation
99 planned staff
Mandate
Activities
Financial and system auditing and assessment
Performance auditing and assessments
Governance and accountability reporting auditing and assessments
Corporate operations and quality assurance
Outputs
Reports, opinions, information and advice
Immediate Outcomes
The work we conduct is relevant to our clients.
The work we complete is valued by our clients.
Our work is done in an efficient manner.
We conduct our work in a manner whereby staff aspire to a standard of excellence.
Intermediate Outcomes
We have promoted:
sound financial administration and reporting across government,
well-managed provincial programs, services and resources,
comprehensive public sector accountability reporting,
Effective public sector governance.
We have adopted best practices in our work and as an employer.
Ultimate Outcome
We are a highly valued legislative audit office recognized for excellence in promoting effective and accountable government

Measuring Progress

Critical success factors

As an audit office, we must maintain independence and our work must be considered credible. Also, we must have sufficient resources at our disposal and they must be of the right composition. Together they form our capacity. Independence, credibility and capacity are our critical success factors, and form the foundation of our operation. We may do everything else right, but without strength in the foundation, we cannot operate effectively. In this sense, these critical success factors also represent our main operating risks.

Exhibit 5: Operating framework



The most meaningful gauge of our success in meeting these critical success factors is the perception of our clients: MLAs and, by extension, the people of British Columbia.

The three critical success factors are interrelated. For our work to be considered credible, we must be considered independent. And if we are considered a credible source of relevant and valuable information, produced efficiently and to a high standard, then we will be provided with sufficient resources (capacity) going forward (Exhibit 5).

Measuring Progress

Independence

Above all else, we must always be, and appear to be, independent of the government and institutions we audit. The *Auditor General Act* contains provisions designed to safeguard the Office's independence. For example, the Auditor General can be appointed by the Legislative Assembly only on the unanimous recommendation of an all-party committee. The Auditor General is accountable and reports directly to the Legislative Assembly, not to the government of the day.

Independence is as much a matter of fact as it is perception and frame of mind. It applies equally to the Auditor General and his staff. As a condition of employment, all staff are obligated to remain free of associations that could potentially impair their independence, and are required to annually declare any relationships that could impair independence.

Credibility

To be of value to the Legislative Assembly and the public, our reports and audit opinions must be considered credible.

Leslie Leung, BComm
Audit Associate

We believe our credibility is derived from:

- doing the right things, and
- doing the right things right.

"Doing the right things" means that we promote effective and accountable government and achieve our outcomes of relevance and value. Through our three lines of business, we try to do the right things by following a long-term risk and significance-based audit selection process, which we balance against the need to be responsive to suggestions from legislators and the public as they arise.

"Doing the right things right" means that we maintain our independence, adhere to our values, and fulfill our outcomes of efficiency and effectiveness.

It also means adhering to Canadian generally accepted auditing standards, as required under the *Auditor General Act*. We strive to ensure credibility by following quality control policies and procedures designed to ensure our work meets professional auditing standards. This means, for example, that all of our audits are subject to executive-level review and challenge. These standards require audits to be performed objectively and with due care. Our quality control processes are designed to ensure that individually and collectively we meet this standard in all our work.

We are a licensed practicing office of the Institute of Chartered Accountants of British Columbia (ICABC). Therefore, in addition to adhering to auditing standards, staff must follow the ICABC code of conduct. As with all public accounting firms, our work is subject to periodic review by the ICABC to confirm that we are meeting professional standards.

Measuring Progress

Capacity

Capacity refers to both the quantity of resources we are provided and the composition of those resources.

Quantity of resources

In accordance with the *Auditor General Act*, each year the Select Standing Committee on Finance and Government Services (FGSC) is provided with an estimate of the resources required to exercise the powers and perform the duties of the Auditor General. The committee may adjust the estimate as it considers appropriate, and then provides it to the Minister of Finance for inclusion in the main estimates of the Province.

If the Auditor General has provided the Legislature with credible, relevant and valuable information and used past resource allocations efficiently, the Office expects it will receive the full amount of funding specified in the Estimate of Resources.

As discussed in detail in the Financial Statement Discussion and Analysis section of this report, the vast majority of the Office's expenses relate to staffing.

Quality of resources

Recruiting and maintaining individuals with the right mix of skills and experience has been a challenge at the Office for a number of years.

In 2007/08, the Auditor General was supported by an average of 87 permanent staff. The majority of our audit staff have accounting designations and many have additional credentials and a broad experience base. To support our work in performance auditing, we also employ subject-matter experts in such areas as business and public administration, law, education, social and environmental sciences and health care.

As of March 2008, our staff held the following complement of advanced degrees and professional designations:

- accounting designation 50
- other post graduate degree 24
- other professional designation 17

In today's competitive marketplace, turnover has been a challenge. In 2007/08, 18 people left the Office – a turnover rate of 18% – all but four left to pursue opportunities elsewhere. This rate is well above the average for British Columbia's public service (6.2% in 2006; 4.7% in 2007) and has had a negative impact our ability to provide service to the Legislative Assembly. For example, our lack of resources in April to June 2007 hampered the timely delivery of our audit opinion on the Province's 2006/07 Summary Financial Statements.

Because of the time it takes to hire new staff, there are often significant periods where positions sit vacant after a person leaves. We are a specialized, knowledge-based organization, and it takes considerable time and effort for new staff to be able to fully contribute.

We have been unable to fill our staff complement for two years both because of our high turnover and because of a lack of qualified applicants to replace those who leave. As a result of persistent staff vacancies, we have returned a significant proportion of our annual budget appropriation at the end of the last three fiscal years.

We recognize that some turnover is healthy in any organization, but this year's rate is unsustainable going forward.

Measuring Progress

Interviews with departing staff indicated that our high turnover has been, to a great extent, salary-driven. The marketplace for people with appropriate training and experience, especially qualified accountants, is intensely competitive.

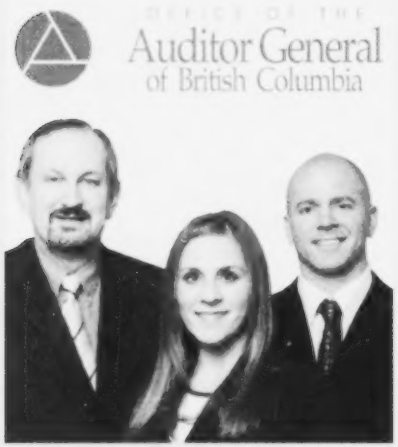
In addition, we anticipate that two-thirds of our Directors will be eligible to retire within the next five years.

In our effort to curb turnover and develop staff, we began implementing a new office specific compensation framework in 2007/08 intended to give us greater flexibility in responding to competitive labour markets and recognize individual contribution. Implementation of the framework will continue in 2008/09 with the creation of new developmental positions of Assistant Manager and Assistant Director.

It is not our aim to compete directly with the salaries offered by private sector auditors, many of whom are part of large, multinational firms. However, we do believe that, at a minimum, it is reasonable for our salaries to be comparable with those of legislative audit offices in other Canadian jurisdictions. The new compensation framework has allowed us to bring salaries more in line with those in Auditor General offices in other jurisdictions.

Virtually, since its inception in 1977, the Office has supported staff in obtaining accounting designations, primarily the Chartered Accountant (CA) designation. Relevant work experience is a requirement to earn the CA designation and the Office is licensed by the Institute of Chartered Accountants to train students. Audit Associates receive necessary experience and in return the Office receives the services of young professionals just beginning their careers.

In 2007/08, we were pleased to have two Audit Associates receive their CA designation. We are planning for a higher number of associates to work with us in future years as we expand our training program. Four students, for instance, will be writing their final chartered accountant examinations in 2008/09, and we anticipate nine will write in 2009/10.



Auditor General John Doyle congratulates Jennifer Chailler and Spencer Goodson for passing the Canadian Institute of Chartered Accountant's Uniform Final Examination.

Jennifer and Spencer are part of a team of professionals committed to making a difference for the people of British Columbia and their elected representatives. Our staff have a wide variety of backgrounds, including law, business, health and information technology. And we've been training CA's for 30 years.

Future opportunities

We provide great experience, varied opportunities inside and outside of financial audit and an excellent work-life balance in beautiful, liveable Victoria.

We'd like to talk to you if you've recently written the UFE, or are a year from completion, and bring to the table strong audit competencies and the desire to make a difference for the people of British Columbia. Contact us at **HR@bcauditor.com** or check the careers section of our website.

www.bcauditor.com

Measuring performance

Changes from last year: understanding and integrating our success

One of the most visible changes we have made for 2008/09 in measuring performance is to combine our annual report and service plan into one document.

Our goal is to have this report focus on our performance rather than on our performance measures. We believe this is better accomplished by reporting in one document what we planned to do, what we actually accomplished and what we intend to do in the future.

In 2007/08, we reduced the number of performance measures from 18 to 10. This year, we have further reduced this number to four by shifting the primary focus to our four immediate outcomes – one key performance indicator for each (Exhibit 6). Because we do not expect our outcomes to change appreciably over time, we believe that the current suite of performance indictors will have enduring value.

Several of the measures identified in the 2007/08–2009/10 Service Plan are noted in the text of this report, although they are not identified as key performance indicators. For the purposes of continuity, and to fulfill our obligations under the BC Reporting Principles and the *Auditor General Act*, we do report results for all of the measures contained in last year's service plan, in Appendix A.

Performance indicators

Our performance indicators were selected to highlight a number of key factors:

- Relevance of the indicators in relation to our strategic goals.
- Validity of the indicators (i.e., whether they measure what they are intended to measure).
- Availability and reliability of data.
- Clarity, comprehensiveness and transparency of the indicators.
- Ability of the indicators to provide reliable comparisons over time.

Although we have three lines of business delivered through four operational portfolios, all of our work is provided to one client group – the Legislative Assembly. Reporting externally on our performance by line of business is not justified when our client base does not readily differentiate between the services we provide.

Therefore, rather than linking directly to our operational outputs, our key performance indicators are outcome-based and speak to our performance in its broadest sense.

The remainder of this report focuses on what we have done to achieve these outcomes, how successful we have been so far, and what we intend to do in the future.

Setting annual targets

Targets are identified for each performance indicator and are based on past performance and future expectations.

We think it is important to set "stretch targets" aimed at continuous improvement. At the same time, we also want our targets to be grounded in past performance and informed by benchmark comparisons.

Measuring Progress

Historical data is not available for all indicators. In these circumstances, performance expectations have been developed based on our best understanding of what is achievable in the short term covered by the service plan. Future targets will evolve as data is accumulated and analyzed.

We have looked for benchmarks from other legislative audit offices, but continue to find little publicly available information for direct comparison. The reason for this is that different audit offices measure their performance in different ways, have different degrees of public accountability and, in some cases, have different mandates.

Ensuring data reliability

The performance data in this report comes from three main sources: the Office's internal management information systems, our publicly available audit reports, and third-party survey data. Data sources and quality are described for each key performance indicator.

All performance data in this annual report is reliable and verifiable. Internally generated data is compiled by Corporate Services, and is reviewed by our Senior Financial Officer. Externally generated data is provided by professional, third party survey providers producing data on our behalf. Any significant limitations in the quality of the data presented are fully disclosed. In future, we intend to have the reliability of our performance data independently corroborated by our auditors.

Exhibit 6: The Office of the Auditor General performance reporting framework

Performance reporting framework
Vision
A highly valued, independent legislative audit office recognized for excellence in promoting effective and accountable government.
Mission
To serve the people of British Columbia and their elected representatives by conducting independent audits and advising on how well government is managing its responsibilities and resources.
Goal 1
To promote sound financial administration and reporting across government
Objective 1
Our financial and systems audits and assessments are valued and lead to positive change
Goal 2
To promote well-managed provincial programs, services, and resources
Objective 2
Our performance audits and assessments are valued and lead to positive change
Goal 3
To promote comprehensive public sector accountability reporting
Objective 3
Our accountability reporting audits and assessments are valued and lead to positive change
Goal 4
To promote effective public sector governance
Objective 4
Our government-related audits and assessments are valued and leads to positive change
Goal 5
To adopt best practices in our work and as an employer
Objective 5
Our Office models excellence and innovation in how we operate and support our staff
Relevance, Value, Efficiency, Excellence
Performance Indicator #1
(Relevance)
Proportion of audits completed in response to questions from MLAs and the public
Performance Indicator #2
(Efficiency)
Number of audits completed
Performance Indicator #3
(Value)
Percentage of MLAs surveyed who believe our work over the last year promoted efficient and accountable government
Performance Indicator #4
(Excellence)
Percentage of staff motivated and inspired ("engaged") by their work

Measuring Progress

Relevance

Relevance means:

- producing audit opinions, reports and information that are useful to, and readily understood by, our clients;
- contributing to better government by providing useful recommendations, both in our public reports and in our communications with management after each audit;
- enhancing the credibility of government's financial reporting to capital markets through our audit opinion on the Summary Financial Statements of the Province of British Columbia; and
- building public confidence in the Province's financial transactions and government performance through our independent review of those on an ongoing basis.

Are we relevant?

Overall, we believe that our work in 2007/08 was relevant, although we do see opportunities for improvement.

For financial statement audits, our Financial Statement Audit Coverage Plan (FSACP) outlines the audits we believe are necessary to fulfill the Auditor General's obligation to provide an opinion on the Province's Summary Financial Statements. The 2007/08–2009/10 FSACP was accepted without changes by the Select Standing Committee on Public Accounts, suggesting that legislators considered the work proposed for this line of business to be relevant. In order to comply with evolving audit standards and ensure our financial statement audit work remains relevant, we anticipate the need in future to enhance the extent of coverage for school boards, health authorities and Crown corporations.

The audits undertaken in our two other lines of business (performance audit, governance and accountability) are, arguably, more sensitive. To preserve the independence of our audit selection process in these areas, we are not required to, and do not, submit a plan for legislator approval.

Our audit selection process is dynamic, and risk and significance-based. We regularly assess the government environment and rank potential audit topics based on a combination of impact (on dollars and people), urgency and our capacity to do the work. However, in order to accommodate emerging priorities, the work plan is subject to regular review and adjustment.

As part of this process, we assess the interest of legislators and the public in potential audit topics. We ask MLAs on an ongoing basis what their interests are, and we actively invite audit suggestions from them. How well we have hit the mark in this area is discussed more fully in the section below entitled "Value."

In addition to ideas from MLAs, we also receive many suggestions from members of the public and groups such as non-profit organizations, labour organizations, industry associations and academic researchers. We review each of these suggestions carefully and incorporate them in our planning where possible.

Measuring Progress

In 2007/08, we logged 23 audit suggestions. Several related to audits already in progress; others raised new topics.

Performance Indicator 1

Proportion of audit reports completed in response to questions from MLA's and the public

Description and importance

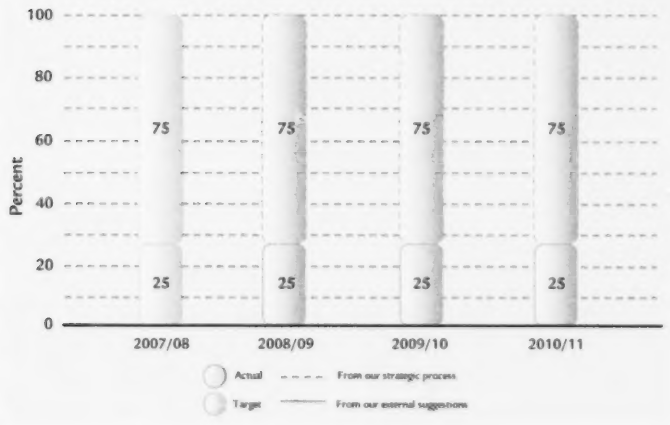
Audit topics are selected based on our assessment of risks and significance; for instance the number of people impacted, the amount of related expenditure or degree of public interest. Our list of potential audit topics is regularly updated in light of current events and issues that emerge. In this way, we strive to ensure our audit topics are relevant.

One of the Auditor General's key operational objectives is to be responsive to our clients – MLAs and the public at large. Active engagement with our clients starts with an invitation to suggest audit topics. We believe the proportion of audit reports originating from a question or request from an MLA or member of the public is an indicator of how responsive we have been in our audit selection process and, by extension, how relevant our work program has been.

Not all audit ideas can be pursued. There are many more suggestions than we have the capacity to address, some suggestions are outside our mandate and others do not fit within our audit selection criteria. However, the Auditor General values all suggestions and encourages legislators and members of the public to provide their ideas to the Office either in writing or through our website, www.bcauditor.com.

The majority of suggestions we receive relate to subjects we have already assessed. However, suggestions to undertake specific work are useful in gauging the level of public interest in different areas, and helps us set priorities.

Graph 1: Proportion of audits completed in response to questions from MLAs and the public



Performance

In 2007/08, we released eight audit reports. Of those, two (25% of completed audits) were in response to questions from MLAs and the public.

Measuring Progress

Setting targets

Outside of financial audits, our work program balances our desire to be responsive with the need to maintain a strategic, risk-based approach. While we increased the number of performance auditors in 2007/08 and anticipate issuing more reports in 2008/09 than we did in the previous year – our capacity limits the number of reports we can issue.

Most of the suggestions we receive have already been identified by our ongoing strategic process. However, knowing there is external interest in a topic can influence our assessment of priority. Externally suggested audit topics are assessed using the same parameters as internally generated ideas, and must meet the same tests of significance, usefulness and auditability. We have no control over the quality of the requests we receive, which puts at risk our ability to sustain a 25% rate of completed audits.

Going forward, we do not know yet where the ideal balance lies. One report in 10 might suggest we are not being responsive enough. Yet, anything approaching 100% might suggest we are taking a knee-jerk, "flavour of the month" approach to audit selection and could raise questions about the credibility of our audit selection process. We do not wish to see either of these outcomes.

Looking ahead, we anticipate that in any one year, approximately one quarter of our reports will be in response to external suggestions. We plan to revise this target as we encourage more suggestions and assess what proportion is appropriate to pursue.

We are currently working on two reports, based on external suggestions, that will be completed in 2008/09. We received a very large number of requests to examine the deletion of private lands from Tree Farm Licences, and decided to examine this process because of the high degree of public interest. We will also be issuing a report on grant administration at the BC Arts Council. While this is not a large dollar program, it is an area that does not usually receive much attention and is very important to certain groups of people.

Major programs and strategies

In the upcoming year, the new Auditor General plans to undertake more speaking engagements in various parts of the province to enhance general public knowledge and understanding of the Office and its work, and to encourage suggestions for audit work.

Our external website will be updated so that our reports are more readily accessible and so that communications, including the receipt of audit suggestions, are facilitated.

Hamish Flanagan, LLB
Manager, Performance Audit

Measuring Progress

Other indicators of relevance

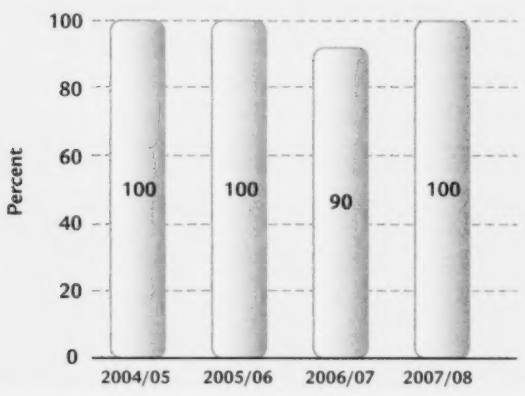
In addition to our key performance indicator, other secondary indicators of relevance include:

Recommendations approved by PAC

We track the percentage of audit recommendations endorsed by the Legislative Assembly's Select Standing Committee on Public Accounts (the PAC).

The PAC manages its own agenda, and is not obliged to review all of our reports. Over the course of 2007/08, the PAC met infrequently and, as a result, the list of reports that have not yet been reviewed is growing. However, the rate of acceptance of the recommendations in the reports the PAC does review provides us with some insight into the relevance of our work.

Graph 2: Percent of recommendations endorsed by PAC



In both 2004/05 and 2005/06, the PAC endorsed all of the audit recommendations in the reports it reviewed. In 2006/07, the PAC reviewed five of our reports and endorsed 90% of our recommendations. In 2007/08, the committee reviewed 9 reports and endorsed 100% of our recommendations.

We aim for all of our recommendations to be value-added and practicable, and would like to see all of them endorsed by the PAC. Over the last four years the vast majority have been, suggesting that, for the most part, our recommendations have been relevant to PAC members.

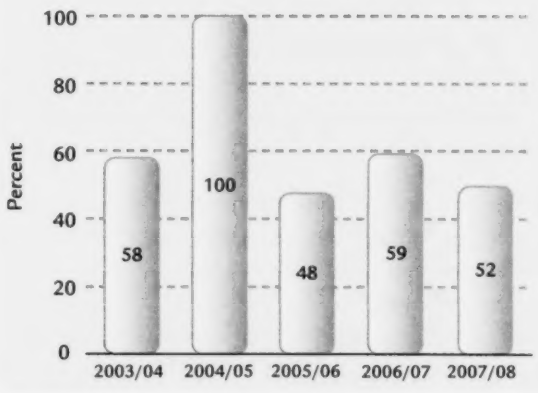
Accessibility

We track the number of times each of our reports is downloaded from our Internet site. While the numbers alone do not indicate whether our work is considered relevant, activity levels over time do demonstrate overall interest in our work. In 2007/08, each of our reports was downloaded an average of 2,766 times. The report most downloaded was Report 2, 2006/07, "The 2010 Olympic and Paralympic Winter Games: A Review of Estimates Related to the Province's Commitments", 13,424 times.

Implementation of recommendations

The extent to which our recommendations have been implemented is another useful indicator of our relevance.

Graph 3: Percent of recommendations implemented



Measuring Progress

We conduct follow-up reviews for all of our major reports to determine the extent to which our original recommendations were implemented. While we hope that all recommendations will be implemented over time, for a variety of reasons not every one is. Some recommendations take years to be implemented. For others, ministries may find other ways to address underlying issues. Therefore, we expect that less than 100% will be fully implemented when reviewed in any one year.

Time lags make measuring the rate of implementation a challenge. Recommendations made in one year will not be implemented until subsequent years. Therefore, the number of recommendations implemented in any one year speaks more to the relevance of our work over time than to our performance of the year in question.

In 2007/08, 52% of the recommendations we reviewed were implemented. This is within the range of the last two years, but is not as high a percentage as we would like to see.

Efficiency

We consider efficiency to be one of our key outcomes because it drives the amount of work we generate and, by extension, the impact we have. Unlike private sector auditors, who are constrained by their ability to generate fees, as a public sector entity the amount of work the Office can produce is constrained by the appropriation we receive.

For 2007/08, we were provided with total funding of $12.75 million. It is up to us to produce as much work as we can within any given resource constraint. Furthermore, as a publicly accountable organization, we have an obligation to be transparent in how efficiently we use the resources provided.

Are we efficient?

Overall in 2007/08, the Office was fairly efficient in its use of resources to conduct our work. However, significant opportunities for improvement remain.

Performance Indicator 2

Number of audits completed

Description and Importance

Our primary outputs are financial statement audit opinions and reports from our performance audit and governance and accountability lines of business. Given a relatively constant appropriation over time, the number of reports and audit opinions we produce is a broad measure of the Office's overall efficiency. We believe this is an important, highly relevant measure to our stakeholders – the number of reports and audit opinions we produce is the most visible evidence of what we have done.

Measuring Progress

Given relatively constant resource inputs, an increasing number of audits reflects better efficiency. Nevertheless, the number of audits produced is strongly influenced by product mix. Generally speaking, performance audits tend to be significantly more expensive than financial statement audits. That said, our audit of the Province's Summary Financial Statements is our single largest project in any given year.

Performance

In 2007/08, we released 26 financial statement audit opinions and 10 other opinions and reports. This compares to 26 financial statement and 14 other opinions and reports in 2006/07.

Our 2007/08 appropriation was 21% higher than the previous year. We would like to have seen a similar increase in the volume of reports. The smaller number of reports in 2007/08 was the product of several factors. Most notable, over the course of the year, the Office had three different Auditors General. There is an inevitable shift in priorities with change at the top, and the extent of this change over the course of the year was unprecedented for us.

Another factor was the very high rate of staff turnover, identified in the discussion of capacity earlier in the report. Over the last year we expanded our complement of performance auditors. Our expectation is that this will allow us to complete more performance audits in 2008/09.

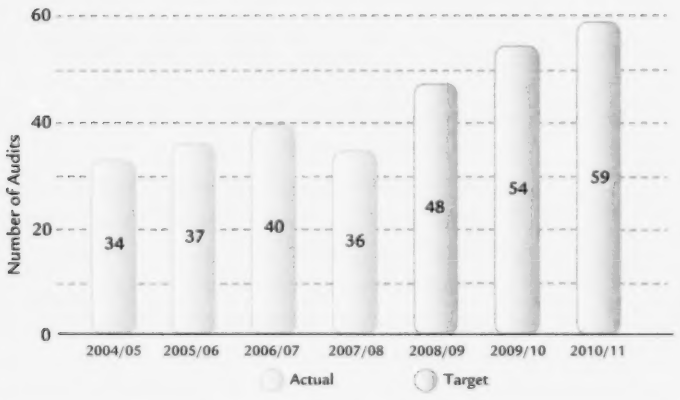
Setting targets

Pending our ability to secure the funding necessary to execute the plans noted below, we expect to substantially increase the number of audit opinions and reports we generate to 48 in 2008/09, 54 in 2009/10 and 59 in 2010/11.

Major programs and strategies

For us, 2007/08 was the first year in a five-year capacity building plan called Vision 2011, developed by a previous acting Auditor General. The Office is now shifting its focus to align with the vision of the new permanent Auditor General. This will unfold over the course of the year but, consistent with the Vision 2011 plan, the current Auditor General intends to substantially increase our staff complement over the next three years.

Graph 4: Number of audits completed



Key among a number of planned initiatives to improve efficiency is a project to streamline the performance audit business process. The aim of the project is to shorten the time it takes to produce performance audits, without sacrificing quality.

Measuring Progress

Other indicators of efficiency

Overhead

As is indicated in our financial statements, the vast majority of our costs are salary related. We strive to keep our overhead costs – defined as expenditures not directly related to providing audit service – to a minimum.

On-time performance

The relevance of information for decision-making decreases with the passage of time. It is therefore important that we complete our reports in as timely a manner as possible through the efficient use of limited resources.

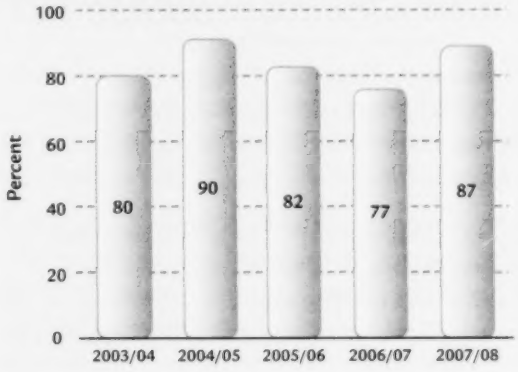
But getting work done quickly must be balanced against the need for getting it right. For Auditors General, there is very little to gain, and a great deal to lose, by releasing audit opinions or reports containing hastily reached conclusions based on incorrect or incomplete facts, data and analysis. Clearly, we cannot claim to be relevant if our conclusions are wrong, regardless of their timeliness.

For this reason, we have put checks and balances in place at the Office to ensure our audit work is thorough and our conclusions well supported. However, performing these checks and balances – such as multiple levels of review, internal and external challenge and fact clearance – takes time.

We therefore track how well we meet planned timelines rather than how quickly we complete audits. In 2007/08, we completed 87% of audits within planned timeframes. Our performance audits continue to present the greatest challenge for on-time performance, with only 50% meeting planned completion dates. This is an improvement over last year, but there is still room for further improvement.

Project management and on-time performance have been, and will continue to be, areas of focus going forward.

Graph 5: Percent of projects delivered within the planned timeframe



It is important to note that unforeseen events will always impact on our ability to deliver within planned timeframes. For instance, where we encounter findings that need to be explored further, or where there are legal issues that must be resolved before we can proceed with publishing our reports.

We go into audits with an open mind – we do not know what our audit conclusions will be until after we've done our work. Given that it is impossible to "know what we don't know" it is difficult to predict the contingencies required for any one audit project.

Amy Hart, MPA, CMC
Manager, Performance Audit

Jacqueline MacDonald, MA
Manager, Performance Audit

Measuring Progress

Value

The most meaningful indication of the extent to which we have added value is from the perspective of our clients – MLAs and the people of British Columbia.

Value is highly subjective and varies from person to person. What one person values, another will not, especially in a politically polarized environment such as the Legislative Assembly.

Value is derived from producing reports on topics that readers find interesting and from recommendations that are useful for improving government performance. Value is created when we produce information in a timely manner and when we are efficient in the use of our resources.

Even though our work is non-partisan and we go to great effort to ensure our reports are factual and balanced, we know we cannot keep everyone happy. Therefore, we strive instead to have most MLAs conclude that, on balance, the work of the Office promoted efficient and accountable government.

Did we provide value?

For the first time ever, we conducted a survey in 2008 of all MLAs. The survey asked questions on a range of topics, including knowledge of the Office and its work in 2007/08, communication, our reports, our credibility, and our responsiveness to MLA needs. We will use the findings from this survey to develop strategies to better understand how we can improve our value to legislators in the future.

Overall, the survey results indicate that while legislators believe we provided value in 2007/08, there are a number of areas where we could improve.

Performance Indicator 3

Percentage of MLAs surveyed who believe our work over the last year promoted efficient and accountable government

Description and importance

During April 2008, all 79 MLAs were invited to participate in a survey conducted on behalf of the Office by independent survey company R.A. Malatest and Associates Ltd.

Each MLA was given ample opportunity to complete the survey through any one of three avenues (on-line, paper-based, or telephone interview). In all, 34 MLAs responded – a response rate of 43%, which is lower than we had hoped would be achieved.

Performance

One of the questions MLAs were asked was whether "the work done by the Office has promoted efficient and accountable government." Members were asked to respond with one of the following statements:

- Strongly agree
- Agree
- Neutral
- Disagree
- Strongly disagree.

Measuring Progress

In all, 77% of respondents either agreed or strongly agreed with the statement.[3]

The Office has surveyed legislators before, but not in the way this was done (previously, questions were asked of a small number of MLAs in face-to-face interviews with the Auditor General). Thus, we do not believe that the results from previous years are comparable, and therefore do not present historical comparisons.

Setting targets

Our survey results establish a baseline against which to compare the results of future surveys.

Our work often deals with contentious and challenging issues, so we do not expect to keep all people happy all of the time. However we do expect to see an upward trend in future years based, if for no other reason, on greater interaction with a larger number of MLAs. Therefore we have increased our target to 85% over three years. These targets will be revisited as we collect more data.

Major programs and strategies

The lower than hoped for survey response rate is, in itself, revealing. It indicates we have a great deal of work to do in improving awareness of our work among legislators.

In the upcoming year, the Auditor General will seek meetings with a significant proportion of MLAs with the aim of strengthening the relationship they have with the Office. The May 2009 election will likely see the election of several new legislators, who will be the focus of our efforts in the 2009/10 fiscal year.

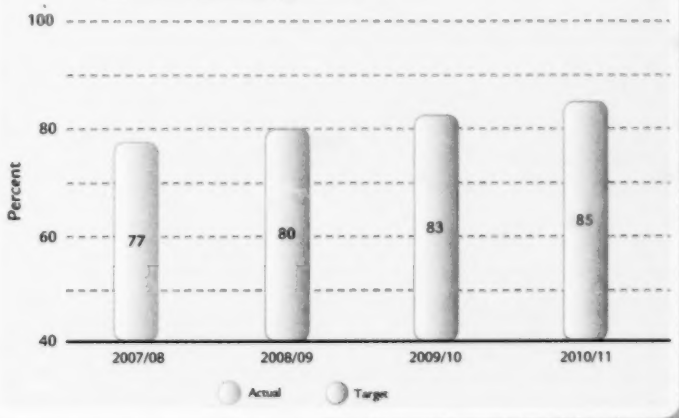
Other indicators of value

An important means of providing value is to ensure the work we produce is usable. This means not only that the reports we produce must be relevant to our clients (as previously discussed), but that they must be easy to read and understand.

Of the MLAs who responded to our survey, 77% felt that our reports focused on relevant topics, the same proportion said that our reports were easy to understand, 74% said that the detail was appropriate given the topic, and 65% said that our reports were produced in a timely manner.

In 2008/09, we will make changes to our reports intended to make them more usable. For instance, we will focus on producing succinct executive summaries so that a wide range of readers can easily digest the essential findings and recommendations. And, overall, we will be making our reports shorter.

Graph 6: Percentage of MLAs surveyed who believe our work of the last year has promote efficient and accountable government



[3] Results are valid to within ±13% 19 times out of 20

Measuring Progress

The risk in increasing our reports' value to some clients is potentially reducing their value to others. For example, changing the length of our reports may improve our ability to communicate with most clients, yet some may feel the sacrifice in detail is detrimental to the report. We will monitor and track feedback regarding our reporting changes to assess whether we have been successful and where we can still improve.

Excellence

Excellence for us means having the right people do the right work the right way.

Having the right people, in terms of their number and abilities, was discussed above in relation to the critical success factor of capacity. In this section, we discuss it in terms of employee engagement.

"Doing the right work" we discussed in relation to our outcomes of relevance and value.

Doing work "the right way" we discussed above in relation to efficiency. Here, we further discuss it in relation to meeting professional standards and to maintaining positive, professional relations with the organizations we audit.

Did we achieve excellence?

In 2007/08, we did demonstrate excellence in our work, although our work environment scores suggest we can continue to improve in this area.

The Auditor General's mandate flows from the *Auditor General Act* and provides him with the authority to conduct the Office's work. The Act requires the Auditor General to conduct financial statement audits "in accordance with generally accepted auditing and assurance standards." Audits in our performance and governance and accountability lines of business are also conducted in accordance with these standards.

Ours is a licensed practising office of the Institute of Chartered Accountants of British Columbia and therefore complies with the institute's rules and minimum practice standards. As is the case with any firm of Chartered Accountants (for instance, the firms performing audits under contract for us), the Office's audit files are subject to periodic review by the institute. Our next review is scheduled for 2008/09.

All of our audit files are subject to multiple levels of internal review to ensure, among other things, compliance with audit standards. The audit files of private auditors providing services under contract are reviewed similarly.

We have a small professional practices department to ensure our audit practices, methodology and training comply with current standards and that we are prepared for new requirements as they evolve. Our professional practices team is currently gearing up for the pending implementation of International Financial Reporting Standards, which will apply to several public sector organizations beginning in January 2011. We have also implemented a new practice guide for our performance audits to help ensure this work continues to meet quality control requirements.

Measuring Progress

We also undertake an annual work environment survey. The survey covers the following key areas:

- Workplace values
- Leadership
- Opportunities
- Relationships and communications
- Quality of work life
- Pay, benefits and recognition
- Satisfaction, pride and commitment

Performance Indicator 4

Percentage of staff motivated and inspired ("engaged") by their work

The survey is also used to determine employee engagement. Engagement is important because it indicates how motivated and inspired staff are by their work.

Description and importance

This measure shows the percentage of our employees, responding to our internal work environment survey, who said they "strongly agree" or "agree" with the following statements.

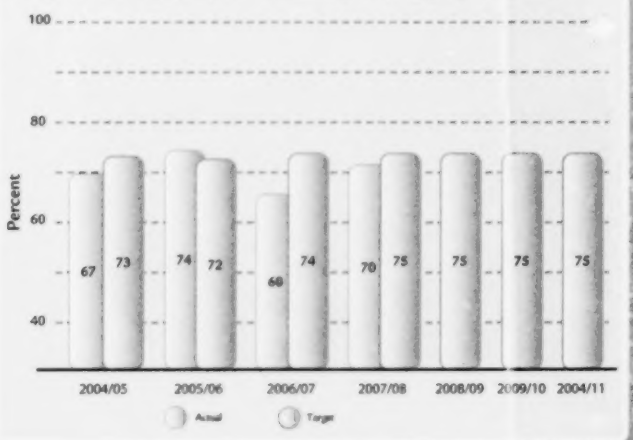
- The work I do makes an important contribution to the Office's success.
- I would highly recommend this Office to a friend seeking employment.
- I think this Office is a great place to work.
- This Office deserves my loyalty.
- I am proud to be part of this Office.

The 2007/08 survey was sent electronically to all staff and received an 85% response rate. Because confidentiality is a critical component for survey results to be valid, the survey was conducted and the information collated and analyzed by an external consultant. No individually identifiable information was provided to management.

This measure provides a general, rather than a concrete, sense of how engaged employees are feeling.

Engaged employees are productive and committed, and high employee engagement is a predictor of a high-performing organization.

Graph 7: Percentage of staff motivated and inspired ("engaged") by their work



Measuring Progress

Success in this measure is important because people form the foundation for the success in meeting all our goals. All of the Office's work is done through people – we have no stand-alone, automated processes – so a high level of work engagement is critical.

Performance

The engagement score for 2007/08 demonstrated an improvement over results for 2006/07. This year, 70% of staff reported feeling motivated and inspired by their work, compared with 60% last year. While we are pleased with this year's result, it is too early to say whether it represents a trend. And it is still below our target of 75%.

A staff committee reviewed the survey results and recommended some "quick wins" to Executive, along with areas requiring further focus group work to clarify our understanding of issues and to help develop strategies to improve engagement.

Maria Timms
Office Assistant

Setting targets

Work engagement score targets have proven difficult to meet. Only in 2005/06 did we meet or surpass the annual target, and we have yet to meet our current target of 75%. Still, we believe it is an attainable figure and are in the process of implementing changes in the work environment that we believe will improve employee engagement.

Major programs and strategies

Work engagement is the cumulative result of hiring the right people, making the right work allocations and providing the right incentives.

We are operating in a very competitive employment market. We have implemented, and are continuing to develop, strategies focused on retaining current staff and hiring well-qualified applicants.

In January 2008, the Office launched a new structure which included new developmental positions. The structure is supported by an Office specific compensation framework that will enable us to provide broader work experience and support us in our recruitment and retention efforts. The new structure and framework provides for recognition of individual contribution.

Towards the end of 2007/08, our complement of staff and contractors exceeded the space available in our location at 8 Bastion Square. Accordingly, we leased additional office space at 595 Pandora to relieve the overcrowding. About 20% of our staff will work out of this annex beginning in early 2008/09.

The importance of hiring is not just to get anyone to fill positions, but to get the right people. This requires strategies to target the skills and type of people we need in the present

as well as in the future. For the upcoming three years, the Office is planning a variety of innovative, competitive recruitment strategies, such as the "Make a Difference" branding campaign.

We are proud to say that our staff are highly sought after. Staff retention, however, contributes to the greatest risk facing the Office: capacity. To address the risk of losing some of our recently qualified staff and junior managers, a significant part of the new management compensation framework is the implementation of "career pathing." This includes the creation of identified development positions and a structured development program involving mentoring, work assignments and training.

Other indicators of excellence

Excellence is also gauged by how well the Office meets client needs. As part of our MLA survey, we asked legislators if they thought we were responsive to their needs. Of the 34 MLAs responding, 65% indicated that they agreed we were responsive to their needs. This tells us we need to better engage individual legislators to determine their needs. With this in mind, we have already instituted a more structured correspondence policy. And in the upcoming year, the Auditor General will initiate a more proactive communication strategy.

After each audit, we poll audited organizations about their impressions concerning how well we conducted our work. Given that it is our responsibility to report what we find – be it good, bad or indifferent – not all auditees are happy with the results of our work. Nonetheless, we think it is important to solicit their opinions.

In addition to providing us with feedback, the survey process also provides a vehicle for organizations to report problems or irregularities that may not have been identified while the work was being conducted.

In 2007/08, we saw an increase from 72% to 86% of auditees who were satisfied with our work.

Looking Ahead

Priorities for the future

Building performance audit capacity

In 2003, the Legislative Assembly enacted a revised *Auditor General Act* that specifies a comprehensive and broad mandate for the Office. In addition to reporting on whether the financial statements of the Province meet generally accepted accounting principles, the Auditor General must also report to the Legislative Assembly anything that he or she considers should be brought to the attention of the Assembly, including whether:

- financial and administrative provisions of provincial legislation have been complied with;
- government is operating economically, efficiently and effectively;
- procedures established by government to measure and report on the effectiveness of programs are adequate and complied with;
- accountability information being provided is adequate;
- terms and conditions of grants, transfers, loans or guarantees have been complied with; and
- terms and conditions with respect to the collection of money have been complied with.

One of our key goals relates to informing legislators and the public about how well the Province is managing $34 billion in programs and services, $38 billion in revenues and $54 billion in assets. In 2008/09, we expect to begin 10-12 new performance audits. This does not imply that we are providing adequate coverage on all the significant aspects of government's program and service delivery. Rather, it means we will be providing information on only 10-12 key subject areas across the 151 entities and 19 ministries within our mandate to audit.

This represents the biggest gap in our current audit work plan. We need to increase our efforts significantly to be able to provide legislators and the public with credible, relevant and timely information on the management of government's programs, services and resources in all areas of government. We began this process last year and have been slowly increasing our capacity. Hiring the right staff and bringing them up to speed has been challenging and has taken time. Nevertheless, we are committed to continuing to build our performance audit capacity in the coming years.

International Financial Reporting Standards (IFRS)

Canadian accounting standards are in the process of being aligned with IFRS. We have begun investing in additional training so our staff are familiar with new standards, are prepared to assess the degree of compliance across all of government and can provide feedback and advice to audited organizations. It is common practice for organizations to seek guidance from their auditors on emerging standards, so we also anticipate devoting considerable effort to assisting British Columbia's public sector organizations in adapting to these new standards.

Looking Ahead

In the upcoming year, we are planning to add one staff member to the professional practices team to strengthen our standards development and training programs.

Change to the Financial Statement Audit Coverage Plan (FSACP)

The FSACP represents the minimum audit coverage required to allow the Auditor General to meet Canadian generally accepted audit standards and to sign the audit opinion on government's Summary Financial Statements.

New auditing standards relating to the audit of "group financial statements" are expected to be in effect in Canada as early as the government's March 31, 2010 fiscal year-end. These emerging standards, along with practices observed in other jurisdictions, suggest that the Office will have to perform the audits of more school boards, health authorities and Crown corporations than it is currently doing.

These potential changes, and their potential impact on the Office's capacity, are now being assessed and may be introduced in the 2009/10–2011/12 FSACP.

Increased focus on public sector governance

Good governance in public sector organizations provides clear and ethical direction, anticipates danger, communicates effectively, and gives and receives information on performance. Conversely, poor governance is at the heart of many public sector failures and often leads to loss of public trust.

Assessment of the quality of governance is embedded within most of our audit work. We have also reported publicly on specific aspects of governance, within individual organizations and across government. Going forward, we will be focussing more on governance practices across the public sector in BC, and will be reporting publicly on the results of our work.

Accountability is a key component of good governance. For over a decade, the Office has promoted better public accountability reporting by government. Over the years we have provided government with feedback on how well it reports on its performance using the BC Reporting Principles and, for a small group of organizations, have provided audit assurance for their annual reports. We see performance reporting as integral to public accountability and good governance, and this will continue to be an important area of our work.

For 2008/09 – 2010/11, we have developed a work plan that devotes an increasing effort towards examining and reporting on governance and accountability within individual organizations, and across sectors and government as a whole.

Jennifer Chailler, CA
Auditor

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The discussion and analysis of our financial performance should be read in conjunction with our financial statements and related notes.

Discussion and analysis

Highlights

In 2007/08, the voted appropriation we received from the Legislative Assembly to fund our operations was $12.75 million. The appropriation was net of recoveries we expected from fee-for-service engagements for audit work carried out with respect to provincial public sector organizations. The Legislative Assembly also approved a separate appropriation for capital expenditures of $160,000.

The actual total cost of our operations in 2007/08 was $12.28 million, $469,000 less than planned. However, our fee-for-service recoveries were less than anticipated by approximately $195,000, resulting in an unused appropriation of $274,000. Our unused appropriation cannot be used in subsequent fiscal years. Exhibit 7 summarizes these high-level variances. Further details are provided in the remainder of the discussion and analysis.

As mentioned previously, our greatest challenge is in attracting and retaining staff, given current market pressures for accounting professionals. As salaries and benefits, along with professional service contracts, make up 81% of our total operating expenses, changes or fluctuations in staff or in our resource mix can shift our financial position significantly from what was planned.

In 2007/08, we planned and budgeted for a staff complement of 99 full time equivalents (FTEs).

Exhibit 7: Office expenditures compared to planned and prior year ($ thousands)

	Fiscal 2007/08 Planned	Fiscal 2007/08 Actual	Variance Planned to Actual	Fiscal 2006/07 Actual	Variance 2006/07 to 2007/08	Fiscal 2008/09 Planned
Salaries & Benefits	$ 9,082	$ 8,191	$ 891	$ 7,530	$ (661)	$ 11,430
Professional services	1,515	1,816	(301)	1,250	(566)	1,440
Other expenses	2,153	2,274	(121)	1,934	(340)	2,380
Total operating expenses	**$ 12,750**	**$ 12,281**	**$ 469**	**$ 10,714**	**$ (1,567)**	**$ 15,250**
Fee-for-service recoveries	(2,400)	(2,205)	(195)	(2,441)	(236)	–
Net operating expenses	**$ 10,350**	**$ 10,076**	**$ 274**	**$ 8,273**	**$ (803)**	**$ 15,250**

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Exhibit 8: Distribution of the Office's expenditures across goals ($ thousands)

		Direct Salaries & Benefits	Total Direct Costs	Overhead Allocation	Total Expenditures	%
Goal 1	Financial Audit	$ 3,741	$ 1,532	$ 1,434	$ 6,707	54
Goal 2	Performance Audit	1,755	292	912	2,959	24
Goal 3 & 4	Governance & Accountabiltiy	232	32	51	315	3
Goal 5	Best Practice Support	1,591	–	709	2,300	19
	Total	**$ 7,319**	**$ 1,856**	**$ 3,106**	**$ 12,281**	**100**

However, given hiring lags and staff departures, our average FTE utilization was 87. This resulted in under spending of about $900,000 in salaries and benefits. To enable us to meet our mandated commitments in times of staff shortages, we augment our staff with contractors having the skills to perform either specialized performance audits or financial statement audit work. In 2007/08 we spent $300,000 over our estimate for contract services in partially compensating for our staff shortfall.

Other expenses, related to providing services and support for our audit team, were greater than planned by about $120,000. Much of this was to ensure our staff had adequate working space, in a safe environment. In 2007/08, we leased additional office space, readied this space for occupancy, installed a new security and access system, and performed repairs and upgrading to our office space at 8 Bastion Square. As a strategy in striving toward excellence and in an effort to reduce carbon emissions, we will continue to look for opportunities to improve accommodations for our staff.

For fiscal year 2008/09 the Legislative Assembly has approved an appropriation of $15.25 million to fully fund our operations, an increase of $2.5 million over last year. This will give us the funding to staff to a level of 105 employees, improve compensation, and provide all necessary support and infrastructure required to carry out our work program. Fee-for-service recoveries, previously included as part of our annual appropriation, in future will flow through to the Province's general revenue account and not impact our operations.

Distribution of resources across the work we do

We develop our Estimate of Resources based on our anticipated work program in each of our three lines of business: financial statement audits, performance audits and governance and accountability projects. Our funding also provides the operational and infrastructure support we need to carry out our work.

Our Estimate of Resources is developed in the early Fall of each year for the Select Standing

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Committee on Finance and Government Services. Often, our actual allocation of resources across goals is revised as we respond to changes in priorities and requests from the Legislative Assembly to perform additional work.

Historically, over one-half of our resources are planned and used in auditing the government's Summary Financial Statements and the financial statements of some government organizations as set forth in our Financial Statement Audit Coverage Plan. In 2007/08, we planned to allocate 53% of our resources to financial audit work, 26% to performance audit work, 3% on governance and accountability work and 18% supporting best practices. Exhibit 8 shows that our actual allocation of resources across these goals was very close to planned.

The costs associated with performing audit work include: salaries and benefits of employees; costs directly related to specific audits such as travel, report publications, contract services, and specialized training required; and overhead costs which include core training and professional development, information technology, building occupancy costs, office supplies and all other supporting infrastructure needed.

Resources used to staff the work we do

In 2007/08, we planned to increase our staff complement to 99, an increase of 10 staff over our prior year plan. Our actual spending on salaries and benefits in 2007/08 was $891,000 less than planned but $661,000 more than that of the prior year. Exhibit 9 shows comparative figures for planned, actual and prior year spending for salaries and benefits along with related FTEs.

Exhibit 9: Year over year planned and actual staff expenditures with associated FTEs ($ thousands)

	Fiscal 2007/08 Planned	Fiscal 2007/08 Actual	Variance Planned to Actual	Fiscal 2006/07 Planned	Fiscal 2006/07 Actual	Variance 2007/08 Actual to 2006/07 Actual
Salaries & Benefits	$ 9,082	$ 8,191	$ 891	$ 7,495	$ 7,530	$ (661)
FTEs	99	87	12	89	83	(4)

When we prepare our Estimate of Resources in the Fall, we assume and budget for a full complement of staff for the full fiscal year. We also consider a natural attrition rate and hiring lags. This year however, we had 18 departures, which was higher than expected, and we encountered challenges in recruiting qualified staff on a timely basis. As a result, we fell short of our desired staffing level and, of course, our fiscal year planned expenditures related to salary and benefits. However, as at the end of 2007/08, we were staffed at a level of 97 FTEs, which bodes well for meeting our upcoming fiscal year work plan commitments.

The increase in expenditures over last year resulted from four additional FTEs and a 2.5% increase effective April 1, 2007 related to the negotiated framework. As well, in January of 2008, we implemented a new compensation

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and classification framework to align salaries more closely with those of other Canadian audit Office's, resulting in a further increase over last year of about $100,000.

Leave expense and associated benefits are also included in salary and benefits expenses. In 2007/08, our leave expense increased by about $130,000 over the prior year as a result of staff banking more current year vacation entitlement than last year and the increase in hourly salary rates as at the end of the fiscal year. Offsetting this to an extent was a reduction in the actual employee benefit rate for the year from 24.62% to 23.83%.

As mentioned earlier, we augment our staff with contractors. Variances in expenditures related to salaries and benefits should be considered in conjunction with our professional services expenses and variances. The two go hand in hand – an under-spending in salary and benefits is generally offset by an over-spending in contract services, while if we have a full complement of staff, less will be spent on contract services. We balance this mix throughout the year to ensure we meet our commitments. This year, our professional services costs were $301,000 greater than planned and $566,000 higher than that of last year. Exhibit 10 highlights the professional service expenditures we incurred to augment our audit work and our corporate activities during 2007/08.

Given our shortfall of 12 FTEs from our planned staffing level, and with staff departures and hiring lags throughout the year, we incurred an additional $566,000 in professional services over the prior year. Hourly rates for financial audit contractors have also increased with the market demand for professional accountants. Included in the professional services expenditures are fees we pay to various private-sector auditing firms to perform audit work on our behalf.

Exhibit 10: Distribution of professional services expenditures across audit work and corporate activities, 2007/08 ($ thousands)

		2007/08	2006/07	Variance
Audit work	Financial audit contractors	$ 777	$ 376	$ (401)
	Fees to audit firms	516	547	31
	Performance audit consultants	184	96	(88)
	Audit report editing	17	22	5
		$ 1,494	**$ 1,041**	**$ (453)**
Corporate activities	Human resources	$ 105	$ 46	$ (59)
	Information technology	86	37	(49)
	Training	50	52	2
	Financial and audit	34	43	9
	Office services	31	n/a	(31)
	Legal services	11	26	15
	Corporate report editing	5	5	-
		$ 322	**$ 209**	**$ (113)**
Total professional services expense		**$ 1,816**	**$ 1,250**	**$ (566)**

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In 2007/08, we incurred fees to audit firms of over $516,000, approximately $30,000 less than last year. These expenses are "flow through," meaning they are directly recovered from the organizations we audit and therefore have no net effect on our budget. We also used contract services to assist us in recruitment activities as we brought on board 39 staff in various regular, auxiliary and co-op positions throughout the year.

Resources used to support our staff

In 2007/08, we spent $2.27 million on office and support infrastructure required to carry out the work of our Office. Total office and support expenses increased $340,000 over the previous year and exceeded our planned budget by $121,000

Exhibit 11 shows the major elements of these expenses and provides a comparison of actual to planned and prior year expenditures.

Office expenses increased primarily as a result of expenditures related to preparing our new leased space and enhancing our accommodation at 8 Bastion Square. The increase in office expenses also relates to purchases of non-capital furniture upgrades and new office equipment leases. The slight increase in anticipated rent expense relates to the additional space we leased.

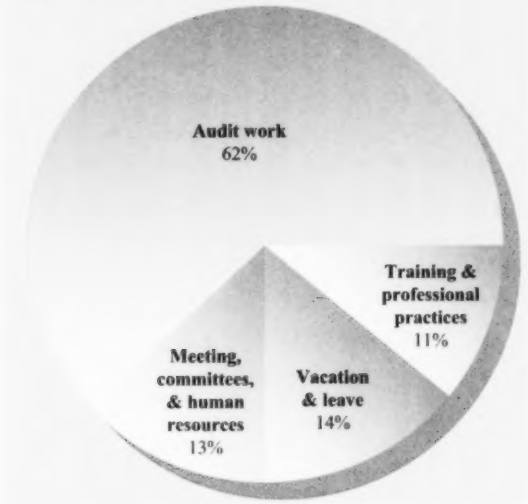
Exhibit 11: Comparison of the Office's planned, actual and prior year office and support expenses ($ thousands)

	Fiscal 2007/08 Planned	Fiscal 2007/08 Actual	Variance Planned to Actual	Fiscal 2006/07 Actual	Variance 2007/08 to 2006/07	Fiscal 2008/09 Planned
Rent	$ 651	$ 696	$ (45)	$ 526	$ (170)	$ 653
Travel	480	408	72	361	(47)	500
Information technology	305	354	(49)	305	(49)	360
Professional dues and training	223	237	(14)	233	(4)	-
Office expenses	189	318	(129)	202	(116)	549
Amortization	122	139	(17)	122	(17)	140
Report publications	120	59	61	122	63	115
Research grants	63	63	-	63	-	63
	$ 2,153	**$ 2,274**	**$ (121)**	**$ 1,934**	**$ (340)**	**$ 2,380**

Finances

Expenditures on information technology were also slightly higher than planned. Our infrastructure and network security enhancements, our requirements to provide staff with secure reliable offsite access throughout the Province, our licensing needs, and our movement toward improved project management practices, all contribute to our continued investment in providing systems and technology solutions that meet our business needs. In 2008/09, our investment in information technology will increase as we implement emerging technology, software, and operating systems to support the work we do and improve efficiencies in the way we do our work.

Graph 9: Distribution of audit staff hours, 2007/08



Resourcing staff is not just about funding related salary, benefit and contract service expenses. To ensure our work continues to meet professional standards and, in striving toward excellence in the way we perform our work, we commit funds to make sure our staff remain current with professional standards, and also provide staff with opportunities for growth and development. In 2007/08, we spent over $287,000 in professional dues and training courses for our staff, including $50,000 for professional services training fees. In 2008/09, funding for training, professional development and professional dues will continue to grow because of continued changes in standards and our plans for an enhanced student program.

Our net asset balance for the year ended March 31, 2008, was $408,000, an increase of $41,000 over last year. This increase reflects the changes in our non-financial assets. Our capital assets increased by $17,000 and our prepaid expenses (primarily for air travel) increased by $24,000 (see Statement of Financial Position).

A glance at our past and a look into our future

Financial trends for the past five years, along with our planned spending for the next three years, are shown in Exhibit 12.

Over the past four years, our appropriation and operating expenses have increased by about $3.0 million, with $2.3 million reflecting the steadily rising cost to staff our Office. However, FTE utilization has only increased by 5 over this same period. During 2007/08 our FTE utilization returned to the level we had in 2003/04. By the end of 2007/08 we were positioned with 97 staff.

Our 2008/09 approved appropriation of $15.25 million will enable us to build our capacity to 105 FTEs and provide the infrastructure we need to support this growth. Salary and benefits costs will continue to increase with the negotiated framework and our new salary compensation framework.

Finances

As we continue to expand our capacity over the next few years, we will also need to ensure we have adequate accommodation for staff. As the market demand for "green" space in the downtown core continues to increase, finding space for staff may present a challenge. We will likely be faced with higher rent costs although we have not yet reflected this in our future funding plans. Other operating expenses will continue to rise with inflation.

Capital expenditures relate to furniture and computer hardware greater than $1,000 and network hardware and software greater than $10,000. In 2008/09, we will be spending $100,000 to replace some existing furniture and to purchase additional furniture to support our planned growth. The remainder will be used to support our technology deployment strategy. In 2009/10 and 2010/11, we accommodate increased capital spending for computer software and hardware that may be required as we introduce new professional standards.

In the future, we will no longer be recovering audit fees. Instead audit fees will flow through to Provincial revenue. For the years 2008/09 and onward we therefore show no fee-for-service recoveries and our total operating expense reflects our full appropriation needed to run our operation. This fee-generated revenue will likely continue to fluctuate as a result of the mix of work we perform and the unanticipated work we conduct during the year.

Exhibit 12: Year-over-year financial trends in the Office, 2003/04 2010/11 ($ thousands)

	Planned			Actuals for fiscal years ended March 31					Line items (as a Percent)				
	2010/11 $	2009/10 $	2008/09 $	2007/08 $	2006/07 $	2005/06 $	2004/05 $	2003/04 $	2007/08 %	2006/07 %	2005/06 %	2004/05 %	2003/04 %
Operating expenses													
Salaries	10,045	9,740	9,180	6,557	5,961	5,810	5,498	6,131	53.4	55.7	56.7	59.2	60.4
Employee benefits	2,450	2,380	2,250	1,634	1,569	1,425	1,307	1,468	13.3	14.6	13.9	14.1	14.5
Professional services	1,520	1,470	1,440	1,816	1,250	1,138	902	1,007	14.8	11.7	11.1	9.7	9.9
Rent	635	635	653	696	526	514	457	443	5.7	4.9	5.0	4.9	4.4
Travel	550	525	500	408	361	352	227	232	3.3	3.4	3.4	2.5	2.3
Information technology	295	295	360	354	305	320	220	219	2.9	2.8	3.1	2.4	2.2
Professional dues and training	372	328	245	237	233	227	186	206	1.9	2.2	2.2	2.0	2.0
Office expenses	305	294	304	318	202	205	190	136	2.6	1.9	2.0	2.0	1.3
Report publications	150	145	140	139	122	123	148	187	1.1	1.1	1.2	1.6	1.8
Amortization	135	125	115	59	122	82	82	59	0.5	1.1	0.8	0.9	0.6
Research grants	63	63	63	63	63	63	63	63	0.5	0.6	0.6	0.7	0.6
Total operating expenses	16,520	16,000	15,250	12,281	10,714	10,259	9,280	10,151	100.0	100.0	100.0	100.0	100.0
Fee-for-service recoveries	-	-	-	(2,205)	(2,441)	(2,588)	(2,293)	(2,263)					
Net cost of operations	16,520	16,000	15,250	10,076	8,273	7,671	6,987	7,888					
Appropriation and other amounts	16,520	16,000	15,250	10,350	8,565	7,944	7,069	8,253					
Unused appropriation	-	-	-	(274)	(292)	(273)	(82)	(365)					
Capital expenditures	200	250	150	156	182	119	156	124					
Average FTE usage	114.0	111.0	105.0	86.5	83.0	83.2	81.4	88.0					

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Financial statements

Office of the Auditor General of British Columbia

Statement of Management Responsibility

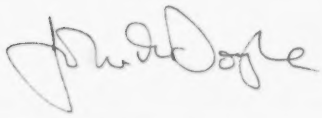
We are responsible for ensuring that the financial statements and other financial information in this annual report are complete and accurate.

We have prepared the financial statements in accordance with Canadian generally accepted accounting principles.

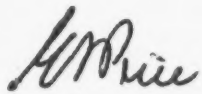
We have developed and maintain systems of internal control that give reasonable assurance that our Office has:

- operated within its authorized limits;
- safeguarded assets; and
- kept complete and accurate financial records.

The Select Standing Committee on Finance and Government Services of the Legislative Assembly appointed Grant Thornton LLP, Chartered Accountants, to audit the accounts of our Office for the year ended March 31, 2008. Our auditors report the results of their audit to the Speaker of the Legislative Assembly. In their report, the auditors outline the scope of their audit and give their opinion on our financial statements.



John Doyle, MBA, CA
Auditor General



Errol Price, CA
Deputy Auditor General and
Executive Financial Officer

May 14, 2008

Finances

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Auditors' report

To the Speaker

The Legislative Assembly, Province of British Columbia

We have audited the statement of financial position of Office of the Auditor General of British Columbia as at March 31, 2008 and the statements of operations, changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these financial statements present fairly, in all material respects, the financial position of the Office of the Auditor General as at March 31, 2008 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

The budget information presented in the statement of operations is unaudited and should not be considered as part of the financial statements on which we have expressed our opinion.

Grant Thornton LLP

Chartered accountant

Victoria, Canada

May 14, 2008

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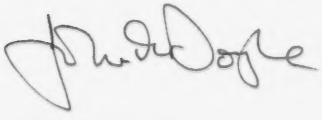
Finances

Office of the Auditor General of British Columbia
Statement of Financial Position
As at March 31, 2008

	2008	2007
Financial Assets		
Audit fees receivable	$ 1,045,128	$ 1,175,948
Accounts receivable	23,130	9,952
	1,068,258	1,185,900
Non-Financial Assets		
Prepaid expenses	84,679	61,084
Capital assets (Note 3)	323,031	305,794
	407,710	366,878
	$ 1,475,968	$ 1,552,778
Liabilities		
Accounts payable and accrued liabilities	$ 764,670	$ 394,760
Due to Consolidated Revenue Fund	303,588	791,140
	1,068,258	1,185,900
Net Assets	407,710	366,878
	$ 1,475,968	$ 1,552,778

The accompanying notes are part of the financial statements.

Approved by:



John Doyle, MBA, CA
Auditor General

Errol Price, CA
Deputy Auditor General and
Executive Financial Officer

Finances

Office of the Auditor General of British Columbia
Statement of Operations
For the year ended March 31, 2008

	2008		2007
	Planned	Actual	Actual
Operating expenses			
Salaries (Note 11)	$ 7,240,000	$ 6,556,245	$ 5,960,814
Employee benefits (Note 5)	1,842,000	1,634,010	1,569,256
Professional services	1,515,000	1,816,247	1,250,126
Rent	651,000	696,083	525,925
Travel	480,000	408,075	360,547
Information technology	305,000	353,717	305,307
Professional dues and training	223,000	236,745	232,576
Office expenses	189,000	318,532	202,452
Amortization	122,000	138,856	122,132
Report publications	120,000	59,548	121,691
Research grants	63,000	63,000	63,000
Total operating expenses	12,750,000	12,281,058	10,713,826
Fee-for-service recoveries	(2,400,000)	(2,205,150)	(2,440,603)
Net cost of operations	$ 10,350,000	$ 10,075,908	$ 8,273,223

The accompanying notes are part of the financial statements.

Finances

Office of the Auditor General of British Columbia
Statement of Changes in Net Assets
For the year ended March 31, 2008

	2008	2007
Net assets, beginning of year	$ 366,878	$ 297,083
Net cost of operations	(10,075,908)	(8,273,223)
Net appropriation used, operating (Note 4)	10,075,908	8,273,223
Net appropriation used, capital (Note 4)	156,093	182,020
Amortization	(138,856)	(122,132)
Increase in prepaid expenses	23,595	9,907
Net assets, end of year (Note 8)	$ 407,710	$ 366,878

The accompanying notes are part of the financial statements.

Finances

Office of the Auditor General of British Columbia
Statement of Cash Flows
For the year ended March 31, 2008

	2008	2007
Operating Activities		
Cash used in current operations	$ (9,473,095)	$ (9,045,411)
Cash provided from current year appropriation	10,116,740	8,343,018
Cash provided by operating activities	643,645	(702,393)
Investing Activities		
Cash used in acquisition of capital assets	(156,093)	(182,020)
Decrease/(increase) in Due to Consolidated Revenue Fund	487,552	(884,413)
Due (to)/from Consolidated Revenue Fund, beginning of year	(791,140)	93,273
Due to Consolidated Revenue Fund, end of year	$ (303,588)	$ (791,140)

The accompanying notes are part of the financial statements.

Finances

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2008

1. Nature of Operations

The Auditor General is an Officer of the Legislature of British Columbia, appointed for a six-year term by the Legislative Assembly. Non-partisan, objective and independent of the government of the day, he reports impartial assessments of government accountability and performance to the Assembly.

The Auditor General's mandate is established by the *Auditor General Act*. The Act requires the Auditor General to audit the government's annual Summary Financial Statements, and allows the Auditor General to be appointed as the financial statement auditor of any government organization or trust fund. The Act also allows the Auditor General to carry out examinations focusing, among other things, on whether government or a government organization is operating economically, efficiently and effectively; and whether the accountability information provided to the Legislative Assembly by the government or a government organization with respect to the results of its programs is adequate.

Funding for the operation of the Office of the Auditor General (the Office) comes from a voted appropriation (Vote 2) of the Legislative Assembly. The vote provides separately for operating expenses and capital acquisitions. The appropriation is net of the recoveries the Office expects to receive through fee-for-service engagements. The net cost of operations reflects the portion of the appropriation used to fund the Office's operations. Any unused appropriation cannot be carried forward for use in subsequent years.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles and reflect the following significant accounting policies.

a) *Legislative appropriations*
The Office is funded by the Legislative Assembly through annual appropriations. The legislative appropriation is reported directly in the Statement of Changes in Net Assets in the fiscal year for which it is approved by the Legislative Assembly and used by the Office.

b) *Fee-for-service recoveries*
Fee-for-service recoveries are recognized as revenue in the period in which the related work was performed.

c) *Changes in accounting policy*

Financial instruments – recognition and measurement

Effective April 1, 2007, the Office has adopted the new standard on *Financial Instruments – Recognition and Measurement* - issued by the Canadian Institute of Chartered Accountants (CICA). Under the new standard, all financial assets must be classified as held-to-maturity, loans and receivables, held-for-trading or available-for-sale and all financial liabilities must be classified as held-for-trading or other financial liabilities.

As of April 1, 2007, the Office has designated its audit fees receivable and other accounts receivable as loans and receivables and they are measured at amortized cost. The Office has designated its accounts payable and accrued liabilities and due to Consolidated Revenue Fund as other financial liabilities and they are also measured at amortized cost. This change in accounting policy had no impact on the results for the year ended on March 31, 2008 or on the financial position as at March 31, 2008.

It is management's opinion that the Office is not exposed to significant interest, currency or credit risk arising from these instruments.

Finances

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2008

d) *Due to/from the Consolidated Revenue Fund*
The Office does not have its own bank account or hold cash or cash equivalents. All financial transactions of the Office are processed through the Consolidated Revenue Fund of the Government of British Columbia. The "Due to the Consolidated Revenue Fund" balance represents amounts that the Office is required to transfer to the fund, without further appropriation, that will be financed by its financial assets. Consequently, the Statement of Cash Flows represents the change in the Due to Consolidated Revenue Fund.

e) *Capital Assets*
Capital assets are recorded at historical cost less accumulated amortization. Amortization begins when the assets are put into use and is recorded on the straight-line method over the estimated useful lives of the assets as follows:

Computer hardware and software	3 years
Mainframe hardware and software	5 years
Furniture and equipment	5 years
Tenant improvements	lesser of 5 years or term of lease

f) *Employee future benefits*

i) Pension benefits
All eligible employees participate in a multi-employer defined benefit pension plan. Defined contribution plan accounting has been applied to the plan as the Office has insufficient information to apply defined benefit plan accounting. Accordingly, the Office's contributions are expensed in the year in which the services are rendered, and represent its total pension obligation.

ii) Other future benefits
Eligible employees are entitled to post-employment health care and other benefits as provided under terms of employment or collective agreements. The cost of these benefits is accrued as employees render the services necessary to earn them.

g) *Measurement Uncertainty*
These financial statements are prepared in accordance with Canadian generally accepted accounting principles, which require management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Audit fees receivable and estimated useful lives of capital assets are the most significant items for which estimates are used. Actual results could differ significantly from those estimates. These estimates are reviewed annually, and as adjustments become necessary, they are recognized in the financial statements in the period in which they become known.

h) *Future Accounting Changes*
In December 2006, the CICA issued two new accounting standards: Financial Instruments – Disclosures and Financial Instruments – Presentation. These standards will become applicable to the Office with effect from April 1, 2008 and will revise and enhance the current disclosure requirements but will not change the existing presentation for financial instruments. The new disclosure will provide additional information on the nature and extent of risk arising from financial instruments and how the authority manages those risks.

Finances

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2008

3. Capital Assets

	2008			2007
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Computer hardware and software	$ 479,027	$ (312,271)	$ 166,756	$ 175,705
Mainframe hardware and software	100,086	(45,866)	54,220	51,692
Furniture and equipment	164,745	(62,690)	102,055	78,397
Tenant improvements	778,563	(778,563)	–	–
	$ 1,522,421	$ (1,199,390)	$ 323,031	$ 305,794

4. Voted, Unused and Used Appropriation

The Office receives approval from the Legislative Assembly to spend funds through an appropriation that includes two components – operating and capital. Any unused appropriation of both lapse at the fiscal year-end.

	2008		2007	
	Operating	Capital	Operating	Capital
Appropriation (Vote 2)	$ 10,350,000	$ 160,000	$ 8,565,000	$ 200,000
Fee-for-service recoveries	2,205,150	–	2,440,603	–
Total appropriation available	12,555,150	160,000	11,005,603	200,000
Total operating expenses	(12,281,058)		(10,713,826)	
Capital acquisitions	–	(156,093)	–	(182,020)
Unused appropriation	$ 274,092	$ 3,907	$ 291,777	$ 17,980
Net appropriation used	$ 10,075,908	$ 156,093	$ 8,273,223	$ 182,020

The net appropriation used is total operating expenses less fee-for-service recoveries.

Finances

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2008

5. Employee Benefits

The Office participates in the Government of BC's payroll and benefits programs and contributes through the government's payroll system for specific severance benefits as provided for under terms of employment. Government charges the Office for the costs of these and other employee benefits expressed as a percentage of salaries. The effective rate for the year ended March 31, 2008 was 23.83% (24.63% for the year ended March 31, 2007). The charge includes amounts for employee benefits programs, employer pension plan contributions (Note 6), employer portions of statutory remittances, payroll systems charges, and centrally funded vacation and retirement liabilities. Employee benefits also include maternity and parental leaves, car allowance and relocation allowance for which the benefit rate is not applied.

6. Pension Benefits

The Office and all eligible employees contribute to the Public Service Pension Plan, a multi-employer, defined benefit, and joint trusteeship plan, established for certain British Columbia public service employees. The British Columbia Pension Corporation administers the plan, including payments of pension benefits to eligible employees. A board of trustees, representing plan members and employers, is responsible for overseeing the management of the plan, including investment of assets and administration of benefits.

The plan is contributory, and its basic benefits are based on years of service and average earnings at retirement. Under joint trusteeship, the risks and rewards associated with the Plan's unfunded liability or surplus is shared between the employers and the plan members and will be reflected in their future contributions.

Every three years an actuarial valuation is performed to assess the financial position of the pension plan and the adequacy of the funding. The latest actuarial valuation as at March 31, 2005 reported a deficiency of $767 million (2002: surplus of $546 million). The next actuarial valuation is scheduled for March 31, 2008 however at the time these financial statements were issued the March 31, 2008 Annual Report for the BC Public Service Pension Plan had not been published.

7. Commitments

The Office leases three photocopiers under separate agreements which expire in August 2011, February 2012 and March 2012. The Office also leases office space at 595 Pandora Street. This lease expires November 2010. Future minimum payments under the terms of the leases as of March 31, 2008 are as follows:

Fiscal Year	Commitment
2008/09	$ 61,461
2009/10	61,461
2010/11	45,341
2011/12	10,303
Total	$ 178,566

The Office has an accommodation agreement with the Ministry of Labour and Citizens' Services for occupancy of the space at 8 Bastion Square. The agreement requires that six months notice be given should the Office choose to vacate. The rental payment commitment for six months is $279,402.

Finances

Office of the Auditor General of British Columbia
Notes to Financial Statements
For the year ended March 31, 2008

8. Net Asset Balance

The net asset balance represents capital assets and prepaid expenses that have not yet been funded through appropriations.

9. Related Party Transactions

The Office is related as a result of common ownership to all Government of British Columbia ministries and other public sector entities. The Office enters into transactions with these organizations in the normal course of business and on normal trade terms.

10. Financial Instruments

The fair value of Due to/from the Consolidated Revenue Fund, receivables and payables approximates their respective book values due to their short term to maturity.

11. Executive Compensation

The annual compensation rates for executive employees are as follows:

	As at March 31, 2008 salary	As at March 31, 2007 salary
Auditor General [1]	$226,639	$221,760
Deputy Auditor General [2]	$169,000	$169,000
Assistant Auditors General [3]	$100,919 to $109,695	$104,409

The above amounts reflect annual compensation rates at each year end and do not include the cost of providing employee benefits (23.83% of salaries in 2008 and 24.62% of salaries in 2007), professional memberships paid on behalf of employees, vacation payouts or the cost of retirement arrangements.

[1] Section 4 of the *Auditor General Act* sets the Auditor General's salary equal to that of the Chief Judge of the Provincial Court. The Auditor General also receives a car allowance of $6,984 per year.

[2] The Deputy Auditor General receives a car allowance of $6,984 per year.

[3] There are four Assistant Auditors General.

Appendix A

Report on our 2007/08 service plan performance measures

Performance Measure 1

Percentage of legislators surveyed who believe that our audit work provides value to the public

In 2006/07 the Office conducted interviews with a small group of MLAs, asking them if they believed that the Office provides value to the public in conducting its overall audit program. Information from select members suggests that biases may have been introduced with this method, and that an independent, confidential survey of all MLAs would be a more valuable instrument to collect meaningful information.

In 2007/08 we conducted an independent, confidential survey of all MLAs. We used this survey to report on a slightly different indicator of our value for 2007/08, which better reports on meeting our goals. Performance indicator #3 reports on the percentage of MLAs who believe our work promotes effective and accountable government.

In 2006/07 100% of interviewed MLAs felt that the work of the Office provided value to the public. For the reasons described above, results are not directly comparable. Nonetheless it is interesting to note that in 2007/08, only 77% of the 34 survey respondents felt "the work done by the Office has promoted efficient and accountable government." This decrease reflects the fact that we asked a somewhat different question, as well as the biases inherent in the previous methodology for this measure.

Performance Measure 2

Percentage of the public surveyed who believe in the value of our audit work

No survey was conducted in 2007/08. We chose to discontinue this performance measure because of concerns regarding its usefulness. For instance, it was unclear if respondents understood the difference between our Office and the Office of the Auditor General of Canada.

This year we conducted a more valid survey of MLAs, which serves as a proxy for public opinion.

Performance Measure 3

Percentage of recommendations endorsed by the Select Standing Committee on Public Accounts (PAC)

Each of our reports tabled in the Legislative Assembly is referred to the PAC. When a report is reviewed by the PAC, we present our findings and recommendations. Ministry and/or public agency staff, as appropriate, are also invited to speak to the report. After discussion, it is traditional for the PAC to vote on whether to accept, reject or alter our recommendations.

Appendix A

We hope that all of our recommendations will be endorsed by the PAC, and track the proportion that are accepted over time. Acceptance of our recommendations speaks to the relevance and value of our work. However, the PAC sets its own agenda, and is not obliged to review all of our reports. Over the course of 2007/08, the PAC met infrequently. As a result, the list of reports that have not yet been reviewed is growing, and measuring the rate of recommendation acceptance has been compromised as a meaningful measure of our performance. Consequently, we are no longer reporting this as a key performance indicator, although it continues to be referred to under Relevance.

Percentage of recommendations endorsed by PAC	2003/04	2004/05	2005/06	2006/07	2007/08
Target	100%	100%	100%	100%	100%
Actual	100%	100%	100%	90%	100%

Data source: PAC reports tabled in the Legislative Assembly.

Performance Measure 4

Percentage of recommendations implemented

The percentage of recommendations implemented provides us with an indication of the attention and support that management of government organizations give to our recommendations. It reports on the percentage of recommendations that have been implemented on our:

- financial statement audits within one year;
- other audits within two years.

We continue to report this information in the Relevance section, but have discontinued reporting it as a key performance indicator because of changes in the way we follow up on recommendations (see Relevance section for details).

Percentage of recommendations implemented	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Target			75%	80%	70%	70%
Actual	74%	58%	100%	48%	59%	52%

Data source: For financial statement audits, results will be based on our subsequent audit work in the following year. For other audits, results will be based on the information from our follow-up reviews until a new follow-up process is established.

Appendix A

Performance Measure 5

Percentage of work plan commitments met

Our 2007/08–2009/10 Service Plan set out a detailed work plan. Since the plan was issued, the Office has had three different Auditors General. The priorities and focus of the Office have shifted significantly, and meeting the pre-existing work plan is of reduced importance.

Percentage work plan commitments met	2007/08
Target	80%
Actual	N/A

Performance Measure 6

Percentage of engagements delivered within planned timeframe

We continue to believe this metric is important. It is tracked and reported under the Efficiency section, however we believe other indicators are more key to understanding our performance.

Percentage of engagements delivered within planned timeframe	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Target				85%	85%	85%
Actual	75%	80%	90%	82%	77%	88%

Data source: Our internal management information system and public release dates of our reports and opinions.

Performance Measure 7

Percentage of projects delivered within the planned budget

As with performance measure 6 above, we continue to believe this measure has value. However, we believe it is more of an internal indicator of project management efficiency than key external indicator of performance.

Percentage of projects delivered within the planned budget	2002/03	2003/04	2004/05	2005/06	2006/07	2007/08
Target				85%	60%	65%
Actual	60%	39%	55%	46%	40%	33%

Data source: Our internal management information system.

Appendix A

Performance Measure 8

Percentage of audited organizations satisfied with how we conduct our work

We value our relationship with the individuals and organizations we audit and continue to formally track auditee satisfaction and report the results under Excellence. The focus of our report has shifted more towards our relationship with our client MLAs, so it is no longer reported as a key performance indicator.

Percentage of audited organizations satisfied with how we conduct our work	2004/05	2005/06	2006/07	2007/08
Target	70%	75%	80%	90%
Actual	80%	80%	72%	86%

Data source: Survey of audited government organizations at the completion of each engagement.

Performance Measure 9

Professional quality control standards met

This metric was implemented as a transitional measure of our adoption of CICA quality control standards. Compliance with these standards is now considered an ongoing critical success factor, as reported under Credibility, and so is no longer reported as a performance measure.

Professional quality control standards met	2003/04	2004/05	2005/06	2006/07	2007/08
Target			Fully compliant	Fully compliant	Fully compliant
Actual	Interpreting new professional standards	Self-assessment completed and practices still under development	Substantially compliant	Substantially compliant	Fully compliant

Data source: Results of external peer review and internal file inspections.

Performance Measure 10

Percentage of staff motivated and inspired ("engaged") by their work

This performance measure is reported as performance indicator 4 in this report.

Appendix B

Summary of reports issued in 2007/08

Financial Statement Audit Coverage

1. 2006/07 Public Accounts of the Province of British Columbia

Colleges

2. Langara College

School Districts

3. School District No.38 (Richmond)
4. School District No.68 (Nanaimo-Ladysmith)

Universities

5. University of British Columbia
6. Fraser Health Authority

Children and Family Services Regional Authorities

7. Community Living British Columbia

Trust Funds

8. Public Guardian & Trustee (Estates & Trusts)

Crown Corporations

9. 552513 BC Ltd.
10. BC Immigrant Investment Fund Ltd.
11. B.C. Pavilion Corporation
12. BC Transportation Financing Authority
13. British Columbia Assessment Authority
14. British Columbia Enterprise Corporation
15. British Columbia Securities Commission
16. British Columbia Transmission Corporation
17. British Columbia Liquor Distribution Branch
18. Columbia Power Corporation
19. Forestry Innovation Investment Ltd.
20. Industry Training Authority
21. Oil and Gas Commission
22. Tourism British Columbia
23. Vancouver Convention Centre Expansion Project Ltd.

Other Organizations – CRF Organizations with Stand-Alone Audited Financial Statements

24. Public Guardian & Trustee (Ops)

Appendix B

Other Organizations – Non-Government Reporting Entity Engagement

25. Provincial Employees Community Services Fund
26. WorkSafeBC

Reports

Report 1 – April 2007
Special Audit Report to the Speaker: The Financial Framework Supporting the Legislative Assembly

Report 2 – June 2007
The Child and Youth Mental Health Plan: A Promising Start to Meeting an Urgent Need

June 2007
2006/2007 Annual Report of the Auditor General of British Columbia
Serving the Legislative Assembly and the People of British Columbia

Report 3 – October 2007
A Review of the Vancouver Convention Centre Expansion Project: Governance and Risk Management

Report 4 – December 2007
Follow-up of 2004/2005 Report 3: Preventing and Managing Diabetes in British Columbia

Report 5 – January 2008
Preventing Fatalities and Serious Injuries in B.C. Forests: Progress Needed

Report 6 – February 2008
Literacy: Creating the Conditions for Reading and Writing Success

Report 7 – March 2008
Audit of the Public Accounts of the Province (Improving Financial Reporting for British Columbians: Report on the 2006/07 Public Accounts)

Report 8 – March 2008
Managing Access to the Corrections Case Management System

Accountability Report Audit Opinions

2006/2007 Performance Report of the Public Guardian and Trustee of British Columbia

2007 Annual Report and 2008–2010 Service Plan of the Workers' Compensation Board of British Columbia (WorkSafeBC)